

**INNOVATION STRATEGY IN A GLOBALIZING INDUSTRY:
A CASE STUDY OF THE WINE INDUSTRY**

By

Orlando-Marian Voica

THESIS

Submitted to
School of Public Policy and Management, KDI
in partial fulfillment of the requirements
for the degree of

MASTER OF BUSINESS ADMINISTRATION

2002

**INNOVATION STRATEGY IN A GLOBALIZING INDUSTRY:
A CASE STUDY OF THE WINE INDUSTRY**

By

Orlando-Marian Voica

THESIS

Submitted to
School of Public Policy and Management, KDI
in partial fulfillment of the requirements
for the degree of

MASTER OF BUSINESS ADMINISTRATION

2002

Professor Seung-Joo Lee

ABSTRACT

INNOVATION STRATEGY IN A GLOBALIZING INDUSTRY: A CASE STUDY OF THE WINE INDUSTRY

By

Orlando Marian Voica

In this thesis we develop through various case studies a wine industry analysis in the globalization context by deeply focusing on the role of strategic innovation of non-traditional players in reshaping this industry. Since the inception of globalization, innovation supported the increase in the global consumption and production of wine, and helped the New World winemakers seize various market opportunities. Globalization has provided not only an excellent support for the development of the wine industry, but also has stimulated its consolidation. In this particular context, innovation supported the New World winemakers to obtain the pole position and maintain the leadership in the global wine industry's development and consolidation. Our analysis shows how innovation expanded the market for wine, led to an increase in the quality of wines and the creation of consistent brands, and generated an overall positive effect on wine companies' operational and financial results. In this respect, this thesis provides a high level analysis that establishes innovation strategies as the main factor of the wine industry development in the 21st century.

ACKNOWLEDGEMENTS

I am thankful to a number of individuals who committed their valuable time and knowledge toward the completion of this thesis. My deepest gratitude and appreciation goes to my advisor, Professor Seung-Joo Lee, whose understanding and tactful nature has helped to nurture and develop this thesis. He set forth the research path on the innovation strategy in the wine industry, and his valuable knowledge helped me acquire a deep understanding of the phenomena that underline this concept.

I would also like to extend my sincere appreciations to many other persons that encouraged and advised me during my studies at KDI School. The School's staff and faculty have given me help and comfort not only throughout my academic endeavors, but also in many other problems. The kindness and thoughtfulness of the people from the Academic Affairs, External Relations or Knowledge Cooperation Center made me feel myself among friends. Special thanks, also, to the Romanian crew here in Korea, who were always helpful through their personal experience, professional knowledge and consistent reliability provided in times of need. Last, but not least, I have to thank my loving family and all people that have supported and have educated me.

TABLE OF CONTENTS

I. INTRODUCTION	1
1.1 BACKGROUND AND OBJECTIVE OF RESEARCH	1
1.2 RESEARCH METHODOLOGY.....	5
1.3 STRUCTURE OF THE THESIS	6
II. OVERVIEW OF THE WINE INDUSTRY	7
2.1. STRUCTURE AND ECONOMICS OF THE WINE INDUSTRY ...	7
2.1.1 Wine Industry Competitiveness Analysis	7
a) Vineyard's Competitiveness Analysis	7
b) Winery's Competitiveness Analysis	10
2.1.2 Economic Analysis of the Wine Industry	13
a) The Vineyard's Economics	13
b) The Winery's Economics	16
2.2. GLOBALIZATION OF THE WINE INDUSTRY	20
2.2.1 Brief History of Wine	20
2.2.2 Current Status of Wine Industry	21
2.2.3 Impact of Globalization on the Wine Industry	25
III. VALUE INNOVATION AND INNOVATION STRATEGIES IN THE WINE INDUSTRY	30
3.1 CASE STUDIES OF STRATEGIC INNOVATORS	31
1. Robert Mondavi	31
i) Innovative Approaches of Grape Growing	31
ii) Innovative Approaches of Winemaking	32
iii) Innovative Approaches of the Marketing and Sales Activities.	34
2.BRL Hardy	36
i) BRL Hardy's Innovative Approaches for Grapes' Supply	37
ii) BRL Hardy's Innovative Approaches for Brand Development	37
3. Vina san Pedro	39
i) Innovative strategies adopted in vineyard	40
ii) Innovative approaches of packaging	41

3.2 KEY FINDINGS RESULTED FROM CASE STUDIES	42
IV. CONCLUSIONS	44
V. APPENDICES	49
Appendix A: The Winemaking Value Delivery Chain	50
Appendix B: The Availability of Vine Growing Territories	51
Appendix C: Sensitivity Analysis of Investments in Vineyard	52
Appendix D: The Economics of the Wine's Value Delivery Chain	53
Appendix E: Top 10 Global Winemakers	54
Appendix F: Global Wine Industry Structure	55
Appendix G: Major Premium Wine Acquisitions	56
Appendix H: Wine Industry Innovators' Brand Portfolio	57
Appendix I: Wine Industry Innovators' Results	59
 SOURCES AND REFERENCES	 60

LIST OF TABLES

1. Global Wine Industry structure	23
2. The Economics of the Wine's Value Delivery Chain	53
3. Top 10 Global Winemakers	54
4. Global Wine Industry's Characteristics	55
5. Major premium wine acquisitions	56
6. Wine Industry Innovators' Brand Portfolio	57
7. Wine Industry Innovators' Results	59

LIST OF FIGURES

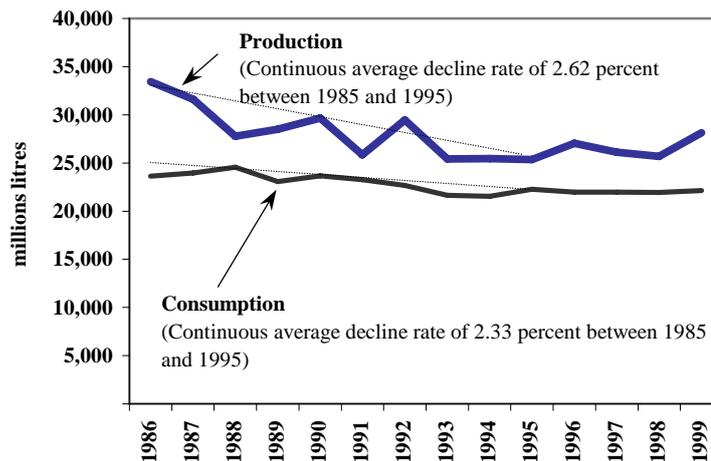
1. Global production and consumption	1
2. Volume growth by price position	3
3. Growth of the branded wine	4
4. Vineyard's forces at work	9
5. Winemaking industry's forces at work	11
6. Wine's value chain economics	17
7. Top 5 - Global wine producers	23
8. Top 5 - Global wine consumers	23
9. Wine's global availability	24
10. Trends in the US Table Wine consumption	26
11. Global wine sales	26
12. Top 5 local producers' market share	28
13. Winemakers' strategies based on the consumers' knowledge	43
14. Innovation strategies' effect on Value proposition – Processes – Customer chain	45
15. The Winemaking Value Delivery Chain	50
16. The Availability of Vine Growing Territories	51
17. Sensitivity Analysis of Investments in Vineyard	52

I. INTRODUCTION

1.1 Background and Objective of the Research

The purpose of this thesis is to analyze the effects of globalization on the wine industry and the role of strategic innovation by non-traditional players in reshaping this industry.

Globalization has dramatically affected the wine industry. While the overall consumption of wine shrunk in the middle of the 90's, traditional winemakers, located mainly in Europe, have been confronted with fierce competition. The New World territories¹ with a climate suitable for grape growing allowed the development of new wineries and increased the competition in the wine industry, causing traditional winemakers from France or Italy to face many problems.



Source: OIV

Fig.1: Global production and consumption

¹ New World territories, a mutually accepted term in the wine industry, refers to non-European wine producing countries.

Various elements have contributed to the increase of competition in the wine industry. Firstly, in this highly fragmented industry, European winemakers are unable to follow the trends, being stuck by the existence of regulations and “traditional” practices² and kept back by aspects of the national culture³. While this has led to the decline from their previous position on the global market, in the meantime, large conglomerates from “New World” territories have taken full benefit of their “no rules” new-entry position and enjoy the opportunities of globalization, developing new qualitative wines, while hedging the agricultural risks of their business. Secondly despite the global decrease in consumption, the focus on quality in the US, Australian or Chilean wine industries, led to their development and increase of their global market share⁴, dropping off the traditional winemakers. New World winemakers pursue strategies focused on new product development, quality leadership or sustainable market expansion, achieving economies of scale while providing worldwide premium products that support them to establish global brands. Meanwhile, the ‘Old World’⁵ producers are striving to maintain their competitiveness and market share through a high differentiation, being unable to find effective ways to fight against the new comers.

Nevertheless, while increasing the competition among winemakers, globalization has also supported an increase in the global market. It has allowed not only the liberalization of the goods trade but also the homogenization of the life style among different classes in different countries. These changes were beneficial for the wine industry, making it easier for winemakers to distribute their

2 Balfour, Frederik and others. “Wine War – Savvy New World marketers are devastating the French wine industry,” Business Week (September 3, 2001).

3 Echikson, William, “How Mondavi’s French venture went sour,” Business Week (September 3, 2001).

4 “French Wine Industry Losing Global Market Share to New World Producers,” Food and Drink Weekly (August 20, 2001)

5 Old World territories, a mutually accepted term in the wine industry, refers to the traditional wine-producers from Europe.

products worldwide. Consequently, the wine industry is expanding from the traditional producers and markets, and radically transforming itself in many ways. Taking the first-mover advantage, New World winemakers conclude various agreements for mutual recognition of their winemaking practices⁶, contributing to the development of the cross-border wine trade and setting-up new standards for quality. Customers started to enjoy qualitative wines and therefore, the sales of non-premium wines (most of them originating in Europe) declined, being replaced by premium products.

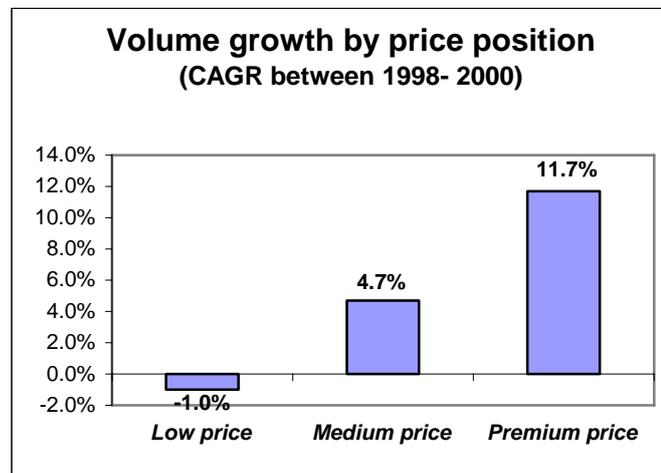


Fig. 2: Volume growth by price position

Moreover, winemakers worldwide focused their efforts to simplify the purchasing decisional process, investing large amounts of money to create consistent brands easy recognizable all around the world; New World winemakers, however, were more successful in their attempts.

⁶ Wine Institute, "Mutual Acceptance Agreement on Enological Practices," News Release, December 18, 2001.

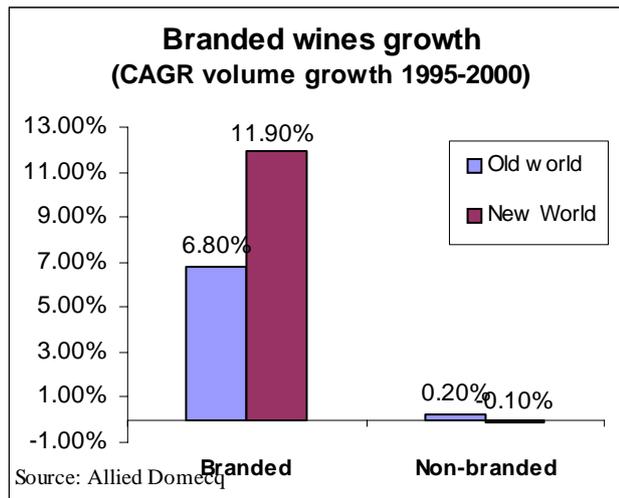


Fig.3: Growth of the branded wine

Globalization provided a good environment for the development of the low attractive⁷ wine industry, but innovation was the spark of change. It has allowed a better consolidation among wine producers and the creation of big, blockbuster wines, designed to satisfy the consumers’ demands. Some winemakers embraced many innovative approaches in their field and now they are setting up new rules of competition inside this industry. Their success – continuously increasing worldwide market share and continuous expanding profits – is the result of their view on strategy and of adopting various innovative approaches for wine making and delivering.

Consistent with the essentials presented, this thesis aims to present a comparative approach on three winemakers’ business models and strategies, presented in many reference sources. The thesis supports the identification and analysis of the winemakers’ innovation strategies and provides also some thoughtful ideas about the role of innovation in reshaping the wine industry in the context of globalization. Moreover, while performing an analysis of the sensitivity

⁷ Perdue, Lewis. *The Wrath of Grapes*. New York: Avon Books Inc, 1999.

of the wine business' return to the profitability drivers, the thesis identifies the main strategic orientation of some innovative winemakers.

1.2 The Methods and Strategies for Research

Various theoretical concepts and sources of information are to be used in the process of dealing with the subject of strategic innovations in the context of the wine industry's globalization. They provide a broad understanding of the role of innovation in the value creation process and are the basis for the future analyses of the wine industry.

Various books, articles and case studies related to the winemaking field are useful for a deep analysis of the wine industry. Together with different analysis and data provided by wine specialists, they support the identification of the main players' strategies in their continuous struggle to increase the value delivered and the market share. While essential for setting-up the outline of the thesis, these studies provide elements for the qualitative analyses of the phenomena and also enough quantitative data to back-up the conclusions.

1.3 Structure of the Thesis

The remainder of this thesis is organized as follows. Chapter two presents the structure and economics of the wine industry and an analysis of this industry in the globalization context. Chapter three deals with the innovative strategies of three winemakers from the New World territories: Robert Mondavi (US), BRL Hardy (Australia) and Vina San Pedro (Chile). The presentation of specific innovative approaches of their business models is followed by the key findings of their effects in the development of the wine industry. Finally, we conclude with some thoughtful ideas on the role of globalization and innovation in reshaping the wine industry.

II. GLOBAL OVERVIEW OF THE WINE INDUSTRY

The following five separate, but chained processes characterize the winemaking cycle: *obtaining the grapes* through the grape growing process; *crushing* - when the grapes are transformed into grape juice; *fermentation* - in which sugar is transformed into alcohol under the influence of yeasts; *maturation* - in which more complex flavors are developed while aging wine into wooden or steel vessels; *bottling, packaging and distribution*. (See **Appendix A: The winemaking value delivery chain**). Traditionally, winemakers usually integrate them, the combination of all possibilities generating a wide range of taste and flavors of wine.

In the practice of wine delivery value, all these processes can be considered as being parts of two separated procedures: obtaining the grapes and processing them into wine that is further delivered to the final customer. In this chapter these two procedures will be individually analyzed to identify their specific opportunities and challenges.

2.1. STRUCTURE AND ECONOMICS OF THE WINE INDUSTRY

2.1.1 Wine Industry Competitiveness Analysis

a) Vineyard's Competitiveness Analysis

Grape growing is an agricultural process, liable to the characteristics of grapes and to the place where they are grown - "*terroir*"-, but highly risky due to

uncontrollable elements such as weather and diseases. Moreover, various restrictions imposed by winemakers come to raise the competitiveness of this field.

First of all, the existence of specific conditions necessary for grapes growing generates medium entry-barriers for potential entrants. Vineyards need a high level of winegrowing specialization that represent a medium-to-high barrier for a potential entrant. High quality grapes are obtained only in areas characterized by qualitative soil and proper weather. The availability of these territories has increased since the inception of globalization and therefore this kind of entry barrier is medium (*See Appendix B: The availability of territories*). Moreover, winegrowing is a capital-intensive business, requiring big amounts of money for land purchase and for capitalization. While in some famous areas such as Napa Valley, Bordeaux, etc. price of land is still very high, the New World territories give the chance of using land at lower prices. Moreover, even though the initial necessary investment amounts are high, the increasing availability of mutual funds and venture-capitals has reduced the financial entry barriers since the inception of globalization.

The sensitivity of the vineyard to various hazards can be another entry barrier in this field. Financially, the instability of the interest rate can dramatically reduce the competitiveness of a vineyard, especially if the land is rented/leased or the winegrower has a high leveraged capitalization. While this risk can be hedged, the non-financial, uncontrollable elements generate the biggest risks for the winegrower. A capricious weather, wetter or dryer than needed, with spring frost, hail or rains in the vintage period, can damage and declassify the production. The vineyard's specific diseases - Phylloxera, Pierce's disease, "Black Goo" and many other fungi or nematodes - can lower the grapes' quality and even destroy the vine.

All these uncontrollable elements can dramatically diminish the vineyard's competitiveness, giving a high-risk character to any investment in vineyard.

The wineries come further to raise average entry barriers for winegrowers. The commercial relation with winemakers is established long time before the vintage and the conditions for the deal are clearly stipulated in contracts concluded between these two parties. While the winemaker commits itself to purchase the production at a specified price, the winegrower has to respect the farming conditions imposed by the purchaser. As long as they stimulate a qualitative production of grapes, versus a quantitative one, these contracts drastically limit the farming techniques and the chemical treatments allowed for crop, as well as the production volume.

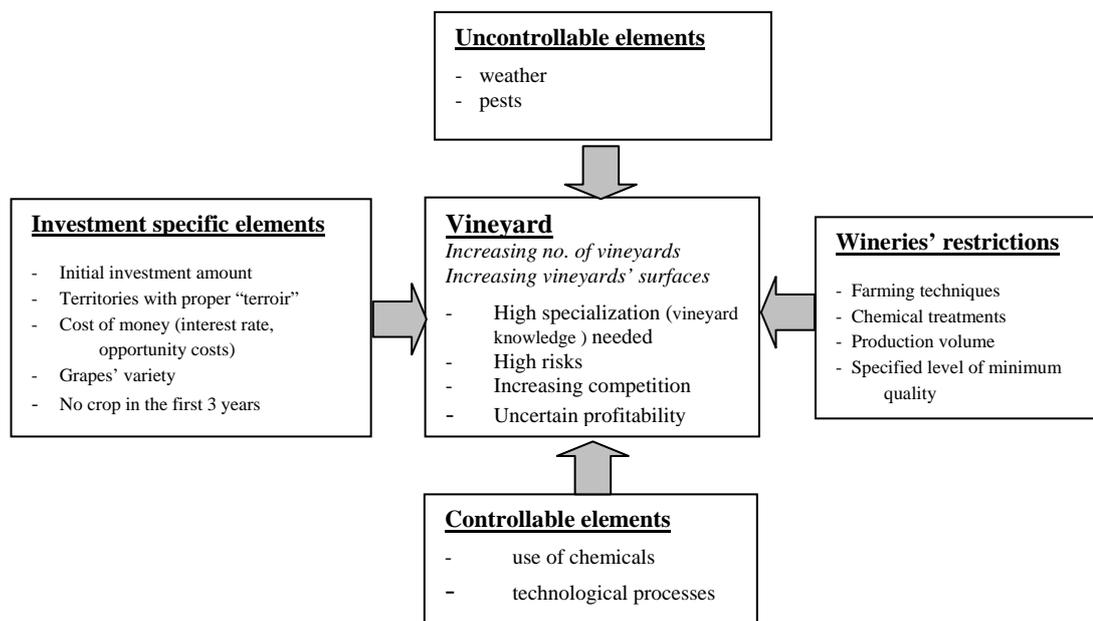


Fig. 4: Vineyard's forces at work

Despite all barriers and risks, the competition in this field has been sharply increasing. An apparent profitability of this agricultural field during the shortage periods and the existence of many suitable winegrowing areas in the New World territories made new players enter this industry. The result is a continuous increase

in the global quantity of grapes and a dramatically increase of the competition among the vine growers.

b) Winery's Competitive Analysis

In the context of the external environment that characterizes wine industry, elements such as customers, replacement products, and new entrants influence the winery's competitiveness.

Customers have the highest negotiating power in the industry. They do not support the wine industry's expansion mainly due to their confusion or lack of information about wine. People prefer to drink wines they know about, from a well-known region or producer, but deceptive labels from a high number of different producers increase the people's haziness. Moreover, while there is no effective advertising for wine, various articles in mass media are trying to stimulate consumers' emotions by using too many "technical" elements. They have an opposite effect on people and create a fuzzy image in the consumer's mind⁸. Consequently, when they cannot find some familiar information, the consumers are confused and choose other beverages - replacement products.

Wine is not a fundamental element of people's life and therefore, it is easy to be replaced by other alcoholic beverages (beer, dry spirits), by soft drinks or by any other general beverages (tea, coffee, water), according to the consumer's mood. While the availability of these beverages is very high, winemakers have a low negotiating power against these replacement products.

The grapes suppliers' negotiating power has dramatically reduced since the inception of globalization. The continuous increase in number of vineyards and

⁸ Rachman, Gideon. "Christmas survey: The disappearing drinker," *The Economist*, Vol 353, Iss. 8150 (Dec. 18, 1999).

the development of more productive varietals has created a global premium-grapes oversupply. While this represents a threat for winegrowers, it favors winemakers to produce consistent qualitative wines.

Globalization makes the winemaking field to face an increasing competition. New wineries were developed especially in the New World territories, taking full advantage of the mobility of enological knowledge that overcame the high specialization entry barriers existing in this field. Moreover, thefts of trademark further accentuate the competition of this industry, making the prices and profits to plummet.

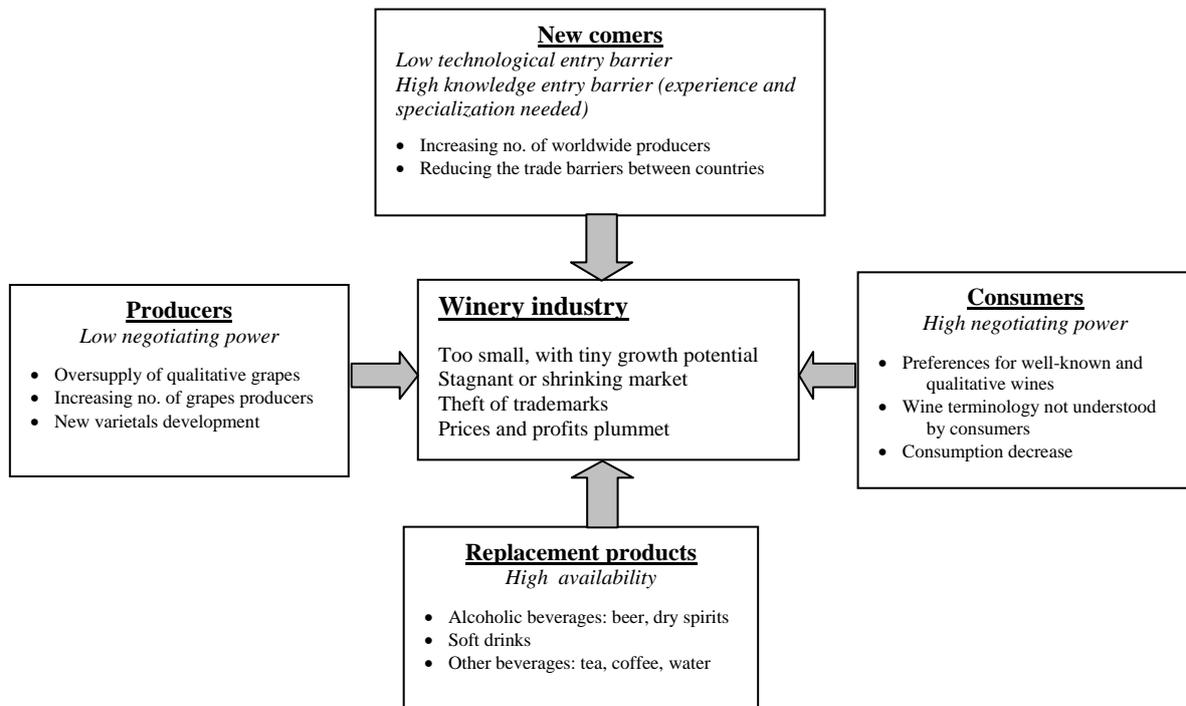


Fig. 5: Winemaking industry's forces at work

The industry's competitiveness is important in order to set up coherent strategies for increasing the revenues, but many other factors influence the winery's activity. Social constraints play an important role in demand's shrinkage. Neo Prohibitionism activities and anti-alcohol campaigns militate to classify wine

as a dangerous beverage for consumers. Even if some researches⁹ proved the benefits of regularly moderate wine consumption, the wineries' revenues are affected by these activities. Financial, economical or political factors are also limiting this industry's attractiveness and profits. While the fluctuation of interest rate increases the risk for highly leveraged investments, in the meantime, the introduction of new taxes succeeded in decreasing the attractiveness of this industry. Moreover, the regulations for "appellation" discourage the industry's development. Regardless the fact that there is no global consistency in the classification criteria for "appellation"¹⁰, technological restrictions for chaptalization, acidification and aging are created to protect the consumers and to offer qualitative products, but they do not allow creation of the consistent qualitative wines.

All these elements affect the stagnant and even shrinking wine industry, generating a high rivalry among the large number of competitors that struggle to achieve a higher market share.

9 Corder R. and others. "Endothelin-1 synthesis reduced by red wine," *Nature*, 414 (2001): pp. 853-854.

10 Balfour, Frederik and others. "Wine War – Savvy New World marketers are devastating the French wine industry," *Business Week* (September 3, 2001).

2.1.2 Economic Analysis of the Wine Industry

a) The Vineyard's Economics

Due to its agricultural character and exposures to many uncontrollable influences, such as weather or specific diseases, there is no universal, completely valid, economical model of winegrowing industry. The following model¹¹ is simplistic but it offers a useful comparative proxy and succeeds in explaining the economics of vineyard, considering the above-mentioned elements. This model supposes that the initial investment for land purchasing¹² and capitalizing¹³ is financed 70% by a 30-year self-amortizing credit at an interest rate of 8%, and 30% through personal funds. It supposes also that the estimated inflation is 2.5%/year during this period and at the end of the period the land is sold with a premium of 60%. Both specific fixed and variable costs has to be carefully considered when analyze the returns of vineyard. The farming activities of vineyard¹⁴, responsible for generating variable costs, are approximated in this model at US \$1,500/acre. While these activities are conditional upon contracts, winegrowers also can not decrease the level of these costs under a specific limit. The overhead¹⁵ expenses are estimated in this model at an average of US \$700/acre, while the average harvest expenses are estimated to be US \$125/acre. Any variation in these costs can have considerable effects upon the profitability of investment in a vineyard.

11 Designed for premium grapes vineyards, based on Perdue, Lewis. *The Wrath of Grapes*, New York: Avon Books Inc, 1999 and various data from industry and case studies.

12 Estimated to be US \$34,000/acre, the average price in California's Napa Valley.

13 Preparation of land, trellising and installation of irrigation systems, planting the premium vine rootstocks are elements estimated at US \$18,000/acre.

14 The farming activities consist from pruning, fruit thinning, leaf pulling, irrigation, fertilization, pest control, etc (See Appendix A).

15 Represent all variable expenses involved in the overall management and paper work.

Prices paid for grapes represent the most important driver of the returns of the vineyard. When consider 4.5 tones/acre¹⁶ as the average quantity of premium grapes produced during the vineyard's life period, a decrease in their selling price from US \$2,000/ton to US \$1,800/ton - *ceteris paribus*¹⁷ -, generates a decrease from 8.003% to 6.55% in the vineyard's yield and change into negative the present value of investment. The price paid for grapes is liable to their quality and varietal, but also to the specific "*terroir*". While the highest prices are paid for grapes that come from a single designated vineyard, many winegrowers are investing in well-known regions to grow ultra-premium grapes that need more attention, but can be sold at higher prices.

The operational costs, harvest costs and overhead influence also the vineyard's profitability. Their tight control positively affects the present value of the investment in vineyard. First, among the variable costs, the farming costs have the highest influence on the vineyard's returns. A decrease of US \$500/acre in these costs will generate an increase in yield up to 8.955% and a far superior net present value of investment when premium grapes' price is US \$2,000/ton. However, a US \$500 decrease in farming cost to US \$1,000/acre can not offset the decrease produced by selling grapes at a price of only US \$1,500/ton. Second, the harvest costs have also an important effect on the final results. For instance, at US \$2,000 per ton of premium grapes, an increase of US \$35 in the **harvest costs** (from US \$125/acre to US \$160/acre)¹⁸ decrease the yield to 7.75%, and lower the present value of investment to the level of US \$7,170. Third, the administrative

¹⁶ 4.5 tone/acre is a moderate expectation that considers the actual premium grapes harvest tonnages, but also the risk of weather and specific diseases associated with the agricultural fields; the upper quantity that can be obtained from one acre is 6 tones, but it is limited through contracts, to assure the necessary sugar content.

¹⁷ Ceteris paribus (lat.) - keeping all the others unchanged.

¹⁸ Usually determined by the winemaker's contractual conditions.

expenses also have a considerably influence on the return on vineyard. At an average grape-selling price of US \$2000/ton, a US \$300/acre increase in the overhead costs (while all other costs are at the initial level) lower the yield from 8.00% to 7.43%. However, a decrease of US \$200 in overhead expenses, to the level of US \$500/acre, generates an increase in present value to the positive value of US \$12,650 and a yield of 8.384% when grapes are sold at US \$2,000/ton.

The cost of capital is important to be considered when deciding upon an investment. Considering the opportunity costs of 10%, any change in the interest rate has an important effect on the overall return. When grapes price is US \$2,000/ton, an increase of 1% in interest rate (from 8% to 9%) – *ceteris paribus* – dramatically decrease the present value of investment from US \$9,347/acre to the value of US \$1,410/acre. Moreover, the same change in interest rate when selling-price of grapes is US \$1,800/ton dramatically drops the net present value of investment from the already negative level of US \$3,091/acre to US \$10,221/acre.

While there is an uncertainty and inconsistency in the revenues due to the agricultural character of this field, the positive return in a vineyard can be maintained only through cost reduction. The most effective solution found by winegrowers was to reduce the initial investment, which is strongly influenced by the price of land. Therefore, they developed vineyards in the “New World” areas, in territories where the land is cheaper, or even on leased territories. For instance, an investment in Australia, where the land’s price is US \$20,000/acre, increases the yield to the level of 8.656% when the price of grapes is US \$2,000/ton - *ceteris paribus*. Moreover, growing grapes on **leased territories** seems to be a more convenient alternative for winegrowers. A 30-year lease contract with an annual payment of US \$500/acre generates a yield of 8.856% in the up-mentioned

conditions. Further decreases in any of these costs make this investment more attractive.

This analysis, focused on ultra-premium grapes, revealed that is far more beneficial for winegrowers to produce high-premium grapes that can be sold at high prices. However, since the globalization opportunities stimulated the development of vineyards in more convenient areas, where quality can be ensured while lowering costs, high-quality grapes become almost commodities. On the other hand, as long as the demand for grapes is not increasing, their availability at low prices place again the winegrowing industry's profitability under questioning (*See Appendix C: Sensitivity analysis of investments in vineyard*).

b) The Winery's Economics

Various value-adding processes support the transformation of grapes into wine and its' delivery to customers. In the following will be analyzed the economics of a winery's value delivery chain, comparing the production cost and the retail price for various wines: an ultra premium wine sold at US \$24 or US \$18 retail price, and a super premium wine the retail price of which is only US \$8 (*See Appendix D: The Economics of the Wine's Value delivery Chain*).

The value-adding process starts once the grapes arrive at the winery. The average quantity obtained from a tone of grapes is 540 liters, which corresponds to a number of 720 bottles. The prices of grapes for the ultra premium wine are considered to be US \$1,600/ton (for the US \$24/bottle) or US \$1,250/ton (for US \$18/bottle), whereas the super premium wine is produced from cheaper grapes (only USD \$720/ton). While the winemaking process has different steps, according to the desired quality, the value added to the grape juice is reflected in different

costs for each of the wine categories (US \$1.11 or US \$0.75 per ultra premium wine bottle vs. US \$0.33 per super premium bottle). The aging process, that adds more value to the ultra premium wine is reflected in costs (US \$1 or US \$0.67 vs. US \$0.17 per bottle). The maturation costs also differ for each one of these two wines. While the maturation process of the ultra premium wine is done in small oak barrels, the super premium wine can be aged in stainless steel recipients in the presence of the oak bricks. This fact, as well as the maturation period and other various processes performed during this period – are reflected in the difference of the costs for this process (US \$0.56/bottle or US \$0.42/bottle for the ultra premium wine vs. US \$0.08/bottle for the super premium wine). The differences in bottling prices are determined by the use of different shapes of bottle, higher quality cork, foil or label. All these winery costs will lead the cost of ultra premium wine to be US \$5.79/bottle or US \$4.33/bottle while the cost of super premium wine is only US \$2.08/bottle.



Fig. 6: Wine's value chain economics

The further value added accentuate the gap between the wine prices, due to the different level of marketing/sales costs, overhead expenses, interest and taxes. Also, the ultra premium wine allows a profit margin of US \$1.43/bottle or US \$0.83/bottle, far higher than US \$0.33/bottle yielded by the super premium wine.

On its way to the consumer, the value provided by the wholesaler is also reflected in the 30% margin added to the winery's price. Finally, by securing a margin of 20% at the wholesaler's price, the retailer allows to the customer to enjoy the sophisticated flavors of the ultra premium wine or the super premium one.

As revealed by the previous examples, there are two different strategies to generate the adequate return from wine. Positioning themselves at the low-end, winemakers can have good profits by selling high volumes at low prices, as long as they are cost leaders. In this way they are maximizing the economies of scales taking benefit of the grapes oversupply. On the other hand, winemakers can decide to differentiate themselves by selling premium wines with higher prices. Whichever strategy they adopt, the final profit is the most important element for them. Profit-maximizing winemakers care about the financial results and they are more likely to produce qualitative wines located at the lower end, which provide them with good margins.

However, firms in the wine industry might have heterogeneous objectives¹⁹. While profits are important for winemakers, some of them are more likely to maximize the utility of wine, rather than short-term profits. They have enough financial resources and afford to "consume" some features of their wines. They invested in wine because of social reasons or simply for the love of the product, being affected mainly by the non-monetary considerations. These utility-maximizers derive a substantial usefulness from the social recognition or the associations created by the existence of the product, rather than from the profit level. They subsidize the production as long as the additional utility derived from

¹⁹ Scott, Fiona M. and Podolny, Joel. "Love or Money? The effect of the owner motivation in the Californian Wine Industry," NBER Working paper. No. 6743 (October 1998).

the costly inefficient features is greater than the disutility generated by the lower rate of return. To maximize their utility, they produce high-end quality wines, which are sold at higher prices. Besides, they might develop a homogenous product portfolio, being known that a high-quality wine sold at the same time as a low-quality wine from the same winemaker raises the retail price of the low-quality wine²⁰.

Finally, this analysis reveals that as long as consumers care about the quality of the wine, it is far more beneficial for winemakers to produce and sell premium wines. These wines allow winemakers to get a higher profit, and bigger sales will consequently determine earlier breakeven of investment in winery. Also, ultra premium wines need a higher quality of grapes, which are sold by vine growers at higher prices, increasing the vineyard's profitability. The only element that is questionable, is how to increase the demand for wine, but the actual trends for globalization and increase in the market for wine seem to solve this problem.

²⁰ Ibid 19.

2.2. GLOBALIZATION OF THE WINE INDUSTRY

2.2.1 Brief History of Wine

The systematic cultivation of grapes for wine is supposed to start more than six thousands years ago at the South of and between the Caspian and Black Seas. The production knowledge and “*Vitis vinifera*” – the best species of grapevine - may have gradually spread west to Egypt and Greece. There is some certain evidence that Egyptians were making wine more than a thousand years BC, but the first intentional activities of wine making are considered to be Noah’s activities on Mount Ararat in Armenia.²¹

Starting from 1000 BC, vines and winemaking techniques spread to countries located North of the Mediterranean Sea, especially in the territories of Italy and France. While the Greeks, who fully enjoyed and promoted the wine’s qualities, kept their wine in open amphorae, it probably did not last long and needed additional preservatives or flavors to be drinkable till the next vintage. Therefore, the Greeks are considered the masterminds of the resinating²² process. However, although the expansion of the Greek Empire advanced the prosperity of vines, once the Romans embraced the wine, they developed wine containers that allowed the wine to last and to mature.

Romans developed vineyards in many of their territories. In central Italy the Etruscans began vine cultivation in the 8-th century BC, while in the South of France the Romans introduced the viticulture around 600 BC. Transportation facilities on water (sea and rivers) highly contributed to the development of

²¹ Encyclopedia Britannica.

²² Resinating – process of adding preservatives that improve the durability of wine.

vineyards in many other areas; by AD 400 wine was being produced both on the Black Sea coast and in the South of France. The vineyards spread in the territories around Marseilles, Bordeaux or along the valleys of Rhone and Loire, in Burgundy. Wine production was further developed along the German rivers Rhine and Moselle. At the end of the first Millennium wine was made all over Europe, especially by the Church who had a monopoly on land and who developed remarkable vine-growing and wine-making skills.

“*Vitis vinifera*” and the knowledge about winemaking techniques spread after the 16th century from Europe to almost all the corners of the globe in which the vine could possibly grow. The monks that followed the Spanish and Portuguese conquistadors spread the vines and the winemaking traditions to Central and South America and up the West coast to North America. Dutch colonists took the vine to their new territories on the Cape, while the British started the development of their wine industry in 1788 in Australia.

2.2.2 Current Status of Wine Industry

After a continuous decline at the end of the 80's and the beginning of the 90's, wine production and consumption has experienced a global increase again in the last few years. The vineyard's grubbing programs, introduction of the light beers as well as the raising of the legal drinking age or lowering the blood-alcohol levels for driving under influence offenses (DUI) were responsible for the wine industry's decline in the 90's²³. However, since then, many suitable territories for grape growing were planted with more productive vines both in Europe and in the New World countries. The proliferation of high quality, premium table wines

23 Rachman, Gideon. "Christmas survey: The disappearing drinker," *The Economist*, Vol 353, Iss. 8150 (Dec.18, 1999).

increased the wine consumption frequency among the traditional wine drinkers of the baby boom generation. Consequently, both production and consumption of wine has steadily increased since 1995. (*See Fig.1: Global production and consumption*).

Wine industry is the smallest and the most fragmented industry among the beverages. In 2001, wine represented a US \$ 158.5 billion industry worldwide, far smaller than beer (\$331.5 B) or spirits (\$206 B)²⁴. Top ten wine firms cover just 5 percent of the world market (*See Appendix E: Top 10 Global Winemakers*), compared with the top four brewers that account for approximately 25% of the global beer market or to soft drinks where the top 4 account for 45% of the global soft drinks market²⁵. The top ten wine companies' market share has decreased, compared with the situation in 1999, when the top four wine firms accounted for 7 percent of the global market²⁶, but it is mainly the result of a continuous expansion of the wine market, supported by the innovators and of the consolidation trends expressed by various partnerships between players of this industry. Five countries produce 67% of the total wine production, while 55% of the global quantity of wine is accounted also by 5 countries. Furthermore, in France, the biggest producer and consumer of wine, there are more than 230,000 producers (in Bordeaux alone, there are more than 10 000), while in US only 4500 wineries produce a countless number of labels (*See Appendix F: Global Wine Industry Structure*).

24 Mondavi, R. Michael "Goldman Sachs Global Consumer Products Conference," Reynella, May, 2002.

25 "Foreign lagers the world over," Euromonitor International (July 10, 2002).

26 SBC Wartburg. "Wine Industry Outlook Conference," Adelaide, November 11, 1999.

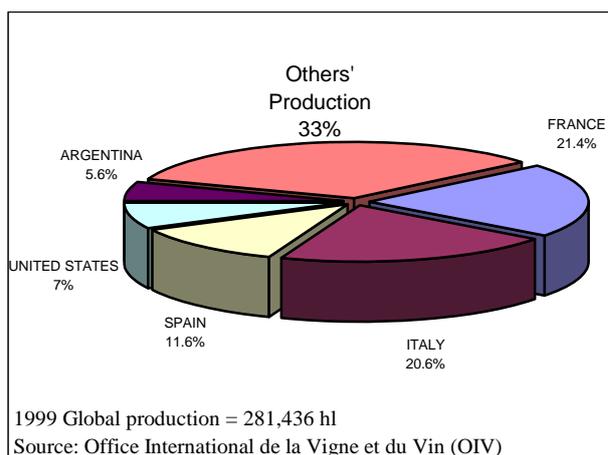


Fig.7: Top 5 Global wine producers

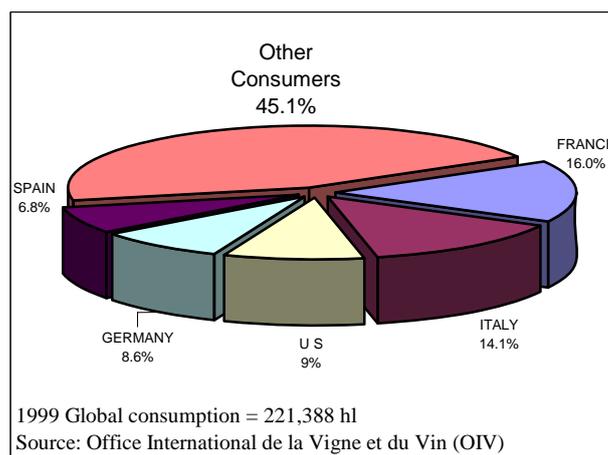


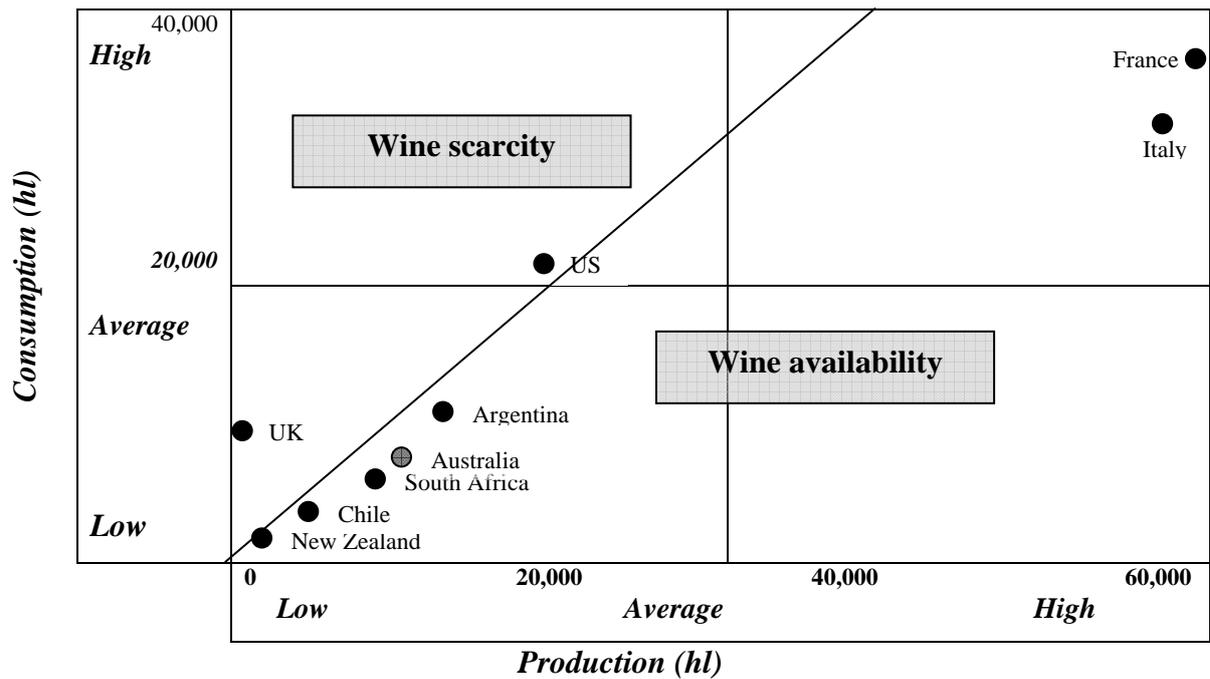
Fig.8: Top 5 Global wine consumers

However, inside this global industry, the New World wine production is much more concentrated than in Old World. While in the Old World territories there are wineries that produce only 200 hectoliters, the smallest wineries in the New World countries account for volumes almost ten times higher. Furthermore, the top 10 brands in each of the New World countries have already reached more than 20% of the local market, far better than Italy's 8%, the highest among the Old World countries.

Table 1: Global Wine Industry Structure

Country	Number of producers	hl mn per winery	Top 10 brands M/S	Major corporates
USA	4,500	4,200	35%	Gallo, Constellation, Mondavi, Kendall-Jackson, Beringer, The Wine Group
France	232,400	200	4%	Domaine de Pillet, Chateau Grand Boise, Abbaye de Valmagne
Spain	n.a.	n.a.	1%	Bodegas y Bebidas, CVNE, Baron de Ley, Bodegas Riojanas, Freixenet
Italy	275,000	200	8%	Casa Bolla, Marchesi Alfieri, di Leonardo Vineyards
Chile	n.a.	n.a.	n.a.	Concha y Toro, San Pedro, Santa Rita
Argentina	31,500	400	n.a.	Finca Flichman, Domaine Vistalba, Cassone, Lamaccia
South Africa	4,650	1,800	25%	Trylogy Winecorp Ltd, Wesgro, WineCorp Ltd
Australia	3,000	2,500	24%	Southcorp, BRL Hardy, Fosters, Pernod-Ricard

Source: OIV, Vin Expo, Goldman Sachs



Source: OIV

Fig. 9: Wine's global availability

Wine production and consumption have different patterns in each of the considered countries. Despite the high per capita consumption that exists in countries such as France, Italy, Argentina or Australia, they actually face a high wine availability, producing more than their capacity for consumption. However, while the New World countries are focused on producing high qualitative wines, the excess of capacity in the Old World countries is mainly generated by the surplus of low quality wine.

The global availability of wine is in the favor of countries such as UK, Belgium or Canada that have a significant consumption of wine, but no local wine producers. Also, the Asian countries do not produce and still do not have a high level of consumption, but their population's exposure to globalization is determining various changes in consuming habits.

2.2.3 Impact of Globalization on the Wine Industry

Various books, articles or research papers analyze the subject of wine industry in the context of globalization. Among them, Kim Anderson²⁷ argues that globalization and homogenization of markets affects in a negative way the final consumer of wine and the winemakers. He states that globalization has led to a reduction in the wines' variety, creating standard products, impersonalized and undifferentiated, that can not satisfy the wide range of taste that people have. Moreover, globalization has led to the disappearance of the old and traditional winemakers and wine industry started to have the characteristics of any other high-tech industry, with a small number of large firms that focus on the global market and ignore the local market needs.

However, globalization has provided an excellent support for the wine industry's development to its present state. Firstly, the establishment of free trade agreements supported the increase in global consumption and production of wine in the late 1990's. Winemakers seized the opportunities made through globalization, taking benefit extensively from the development of cross-border agreements, while the market for wine was expanding. Through trade liberalization, globalization has helped companies to become more effective by providing access to a bigger pool of consumers worldwide. The promotion of wine as a food-complementary led to a continuous increase in the table wine market.

²⁷ Anderson, Kym. "The Globalization (and Regionalization) of Wine." Centre for International Economic Studies, Adelaide University: 2001.

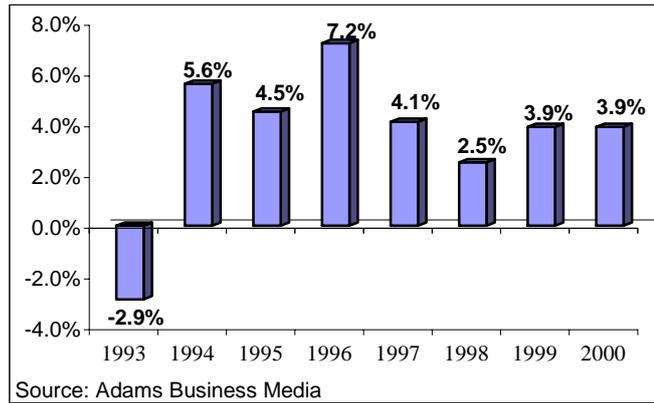
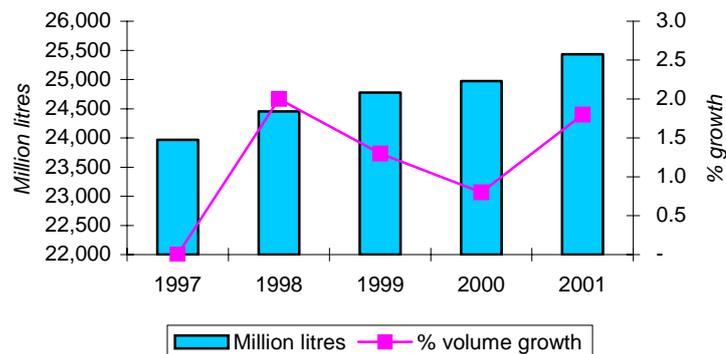


Fig. 10: Trends in the US table wine consumption.

Moreover, the homogenization of life-style among countries, took benefit of the availability of qualitative wines, supporting the growth of global consumption.



Source: Euromonitor

Fig. 11: Global wine sales

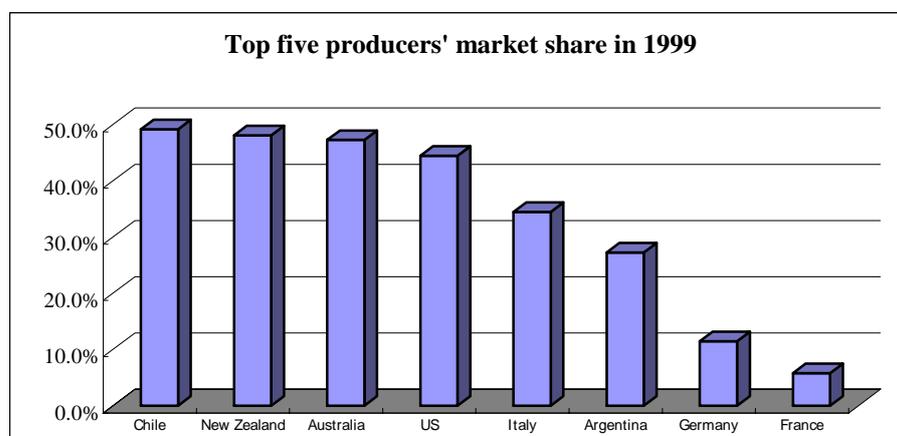
Globalization has also facilitated a reduction of all risks specific to the wine industry. Winemakers exploited the increasingly global availability of proper territories, suitable for grape growing, and reduced their agricultural risks through multi-country grapes sourcing. They enjoyed higher profits through various economies of scale, but by producing and selling wines across countries they also hedged the exchange risk among currencies.

Secondly, globalization and the existence of no-rules created synergies that further developed the New World winemakers. The existence of highly valuable enological knowledge capital and its' mobility supported various innovations in the winemaking techniques of the New World players. While benefiting from the increasing abundance of qualitative grapes, they focused on quality and cost efficiency, developing high-premium portfolios with wines characteristic to different regions across the world. This enabled wine producers to better satisfy their customers and support their expansion globally. People started to enjoy the newly developed qualitative wines, generating a higher volume growth in the premium wines category. (*See Fig. 2: Volume growth by price position*). In addition, marketing efforts to simplify the purchasing decisional process generated the growth of the branded wines, especially those produced by the New World winemakers. (*See Fig. 3: Branded wines growth*).

While supporting development, globalization also sustains the consolidation of the extremely fragmented wine industry. Mergers, acquisitions or other forms of alliances are the basis of the two main collaboration methods that come to improve the prospects of the wine industry.

Firstly, the vertical co-operations in the wine industry through forward and/or backward agreements have been creating and delivering more value to customers. While a closer relation between winegrowers and winemakers contribute to the creation of consistent qualitative wines and cost reduction, the cooperation between the winemaker and marketer assure a more effective delivery of the wine's value. For instance, e-commerce augmented the traditional distribution channels, lowering the distribution costs by using Internet and e-mail

for direct distribution. However, despite the benefits provided by the existence of this new channel, its development is liable to each country's legislation²⁸.



Source: Euromonitor.

Fig. 12: Top 5 local producers' market share

Another form of cooperation inside the wine industry is the horizontal collaboration among companies at a local level or at an international one. Firstly, cooperation at a local level, facilitates the consolidation of firms that want to move beyond the boutique size by getting economies of scale in wine producing or in marketing²⁹.

Secondly, the horizontal cooperation among winemakers worldwide, contributes to a better use of trade opportunities. Through the agreements for assessing the origin of wine, standards for producing wine are recognized among various countries³⁰. Consequently, it allows winemakers to create and promote real global wines, better enjoying the opportunities for trade provided by globalization.

Thirdly, more significant than the firm's local concentration in the global market or

²⁸ For instance, while the Australia government exempted the sales taxes for own Internet-marketed wines, the sale of wine through the Internet is forbidden in many states of the US.

²⁹ E.g. Banksia Wines (Australia) resulted from the merging of local companies St. Hallett, Tatachilla and Hillstove. Also, the South Africa's Distiller's Corporation merged in 2000 with Stellenbosch Farmers Winery Ltd, creating the country's largest alcoholic beverage company.

³⁰ Wine Institute. "Mutual Acceptance Agreement on Enological Practices," News Release; December 18, 2001.

the available opportunities for trade, is the extent to which wine companies are becoming multinational, forming alliances with foreign companies for production and distribution (*See Attachment G: Major Premium Wine Acquisition*). The attempt for internationalization allowed not only winemakers, but also alcoholic beverages companies to develop different sorts of cooperation with wine companies worldwide³¹. Eastern Europe, South America and China are the main targets for investments from Western European countries, while Australian companies are investing worldwide, including US and Europe³². The cross-border co-operations are expected to generate results much quicker than foreign direct investments, while hedging either the risk of lack of grapes due to diseases (Phylloxera, Pierce's Disease) or of the floating exchange rates. However, even if they have not reduced the competition among winemakers, the horizontal M&A's or partnerships have increased the concentration in the wine industry.

Finally, as they stimulate the development and consolidation of the global wine industry, the co-operations within the industry have different effects on players. While beneficial for the development of qualitative wines, the horizontal alliances have a controversial effect on winegrowers³³. The continuous expansion of the surfaces cultivated with qualitative *Vitis vinifera* make large wine companies to move their crushing facilities in lower-priced countries. While this will finally lead to the equalization of the wine grapes price across countries, it also reduces some winegrowers' profits.

31 In December 2000 Diageo (UK) and Pernod-Richard (France) made a joint bid and purchased Seagram. In 2001 Allied Domecq (UK) acquired Buena Vista Winery (California), Bodega y Videos (Argentina), Montana Wines (New Zealand) and Bodegas y Bebida (Spain). (see table).

32 Mildara Blass (California) acquired Beringer. Southcorp (Australia) has a joint venture on California's Central Coast, while BRL Hardy has a major winery (La Baume) in the south of France and a big joint venture in Sicily. Mondavi increased its capacity through investments in Australia (Leuwin) and Chile (Sega Winery).

33 Anderson, Kym. "The Globalization (and Regionalization) of Wine." Centre for International Economic Studies, Adelaide University: 2001.

III. VALUE INNOVATION AND INNOVATION STRATEGIES IN THE WINE INDUSTRY

Gary Hamel³⁴ considers innovation as the source of development that eliminates the “zero-sum” game performed by companies that struggle to outperform their rivals on the same basic dimensions of competition. At a general level, innovation can generate the breaking of the rules of competition, making them irrelevant in the old dimensions and setting up new rules³⁵. Breakthrough strategies necessary to secure and expand the markets and profits, emerge as a result of various approaches of strategic thinking³⁶, only when the strategy-making process is opened to incorporate new ideas¹². For instance, David Choi and Liisa Valinkangas identified and presented various themes of such breakthrough strategies³⁷. Among the themes, universalization and consolidation can be considered as the actual challenges of the wine industry. While globalization has supported the consolidation of the highly fragmented wine industry, winemakers are struggling in their innovative approaches, to universalize wine consumption by making it the first global healthy beverage choice.

Consequently, the following analysis is focused on three companies located in different continents in the New World territories, companies that adopted initially various innovative techniques that influenced their development and the

34 Hamel, Gary. “Strategy Innovation and The Quest for Value.” Chap. 8 in *Strategic Thinking for the Next Economy* ed. Cusumano, Michael A. and Markides, Constantinos; MIT Sloan Management Review, 2001.

35 Kim, W. Chan and Renee Mauborgne, “Strategy, value Innovation and the Knowledge Economy,” Chap. 9 in *Strategic Thinking for the Next Economy*. ed. Cusumano, Michael A. and Markides, Constantinos; MIT Sloan Management Review, 2001.

36 Govindarajan, Vijay and Anil K Gupta. “Strategic Innovation: A Conceptual Road Map,” *Business Horizons*, Vol. 44, Issue 4 (July-August 2001).

37 Choi, David and Valinkangas, Liisa. “Patterns of Strategy Innovation,” *European Management Journal*, Vol.19. No.4 (Aug 2001): pp. 424-429.

wine's industry progress. This analysis is looking to identify the strategic innovations that influenced those companies' development and their position on the global market.

3.1 Case Studies of Strategic Innovators

1. Robert Mondavi

The development of the Robert Mondavi winery was based on the family's philosophy that the purpose of wine is to accompany food. In this respect, Mondavi totally committed to quality, dedicated his energy to create consistent brands and to enlarge the market for his wines. Mondavi's strong dedication to producing quality and to operational excellence, stimulated various innovations of the value delivery chain of wine. Many of them were rapidly copied by competitors and became standards of this industry.

i) Innovative Approaches of Grape Growing

Looking at Mondavi's case, innovation began in the vineyard. Robert Mondavi is famous for being the most aggressive planter of denser spaced vineyards in Napa, this was done, however, after research was undertaken. Firstly, consideration was taken into arrangement of the vineyard and its unique environmental characteristics, while diverse low-impact viticultural techniques were developed in an attempt to let each harvest express the synergies between the essential character of the varietal and each vineyard's "terroir". Secondly, many experiments were performed in vineyards to identify the effect of increased pruning and various levels of sunlight or irrigation, on the flavor of the final crop.

Natural wine growing programs were also developed to move away from synthetic chemicals and pesticides to natural fertilizers, stimulating the development of natural flavors. Finally, Robert Mondavi improved the precision of decisions related to the vineyard (grape harvesting, application of fertilizers, irrigation or pest control) by developing a cooperation with NASA to create highly accurate digital maps of its' vineyards.

Mondavi outsource also qualitative crops, securing their quality through sharing knowledge with partner growers. Mondavi's vineyard specialists act as consultants for their partner growers, while the latest taste the wines created from their grapes. Thus, they can understand easily the opportunities for improvement and successfully apply the new technologies and techniques developed in Mondavi's vineyards. In search for quality, nowadays in both the partners' vineyards and in its' own vineyards, Mondavi emphasizes the organic growth that adds more value to the wine.

ii) Innovative Approaches of Winemaking

The importance of the relationship between the way grapes are grown and how they are subsequently turned into wine is enhanced by Mondavi, who has been adopting various innovations in the winemaking process. His philosophy was to preserve the character of fruits in the final flavor of the wine by gently handling the grapes during the various processes. The manual harvesting (as opposed to the mechanical harvesting) is stimulated especially for grapes designed for highly qualitative wines³⁸, while gravity, rather than pressurised pumping, is used to transfer must from the crusher into the fermentation vat.

³⁸ Mondavi succeeded in transferring a higher degree of the flavor of the original grapes to wine by handling Pinot Noir

Mondavi became famous in the 60's as the America's most innovative and highest quality vintner by changing the fermentation and aging philosophy. He was the first winemaker in the world who controlled the fermenting process by using stainless steel fermentation tanks, allowing the wine to extract more flavor from grapes. At the beginning of the 70's Mondavi also used stainless steel vats for maturation, while oak bricks were added to stimulate the creation of natural flavors. The competitive advantages provided through cost reduction and quality improvement made this technique spread rapidly among other winemakers.

However, Mondavi paid attention to both the quality and costs. In search for higher quality premium wines, Mondavi partially returned to the oak barrel's maturation technique³⁹. His determination to create gentle premium wines, with velvety character, made him to experiment with starting the aging process in little oak barrels, which allowed for a gentle maturation of wines. He pioneered the use of small (60 gallons) French oak for the aging process, instead of the large 5000 gallons redwood vats that had been the Napa standard. Nonetheless, as producer of different brands, Mondavi finally stimulated specialization, by splitting its winemaking process among different locations⁴⁰.

Mondavi innovated the winemaking techniques as a result of his exposure to various opportunities and of the availability of international knowledge. The grapes shortage encouraged Mondavi to start using imported bulk wines from Chile and France, to preserve his sales during that tough period and inspired him to

differently from the Cabernets, and Chardonays completely different from the Rieslings (Porter, Michael E. and Gregory C. Bond. "Robert Mondavi: Competitive Strategy," Harvard Business School Case study 9-799-125, June 16, 2000).

39 Mondavi, Robert, "Interview with a Winemaking Legend", ed. Gordon, Jim <www.wine.com/aboutwine/basics/people>.

40 For instance, wines from The Napa Valley brand were crushed and fermented at RMW in Oakville and Carneros; barrel fermentation and aging were done in Napa Mondavi's central warehouse (Bedford), while blending, bottling and packaging were done at Woodbridge winery. The aging process was also split between oak barrels aging (In Bedford and Northern California) and tank aging (In RMW, Woodbridge, Golden State Vintners) with different results in the quality of wines (Robert Mondavi Ltd. Annual report – 2001, September 2001).

develop new brands, blended from imported wines. Moreover, Mondavi's continuous quest for quality led to the creation of Opus One, the first venture of its kind between an American winery and a European elite house.

iii) Innovative Approaches of the Marketing and Sales Activities

Mondavi innovated not only the winemaking techniques, but also the way of presenting wines. He developed a foiless, flange design bottle for his premium wines⁴¹, reducing the bottling costs by 50 %. As a result, the new bottle was quickly copied by competitors and became a standard for all Californian premium wines. Moreover, Mondavi used labeling as a powerful tool for positioning. Through his labels, Mondavi eliminated the brand dilution and strengthened the awareness of his portfolio, enhancing the varietal designation and feature in proper graphical conditions.

Mondavi had also innovative approaches for the distribution chain. The development of the on-premises market was very important and therefore he organized seminars and training for restaurants, being a leading spokesman for introducing "wine-by-the-glass" as a tool to educate people. To obtain efficient distribution both on-premises and off-premises, Mondavi supported each distributor with domestic sales force and with a rolling 18 months calendar of marketing and promotional program. Moreover, through various distributor councils where the sales results and trends were analyzed, he stimulated the shift of distributors from the traditional role of brand builders to the position of logistic providers for his company.

41 Porter, Michael E. and Gregory C. Bond. "Robert Mondavi: Competitive Strategy," Harvard Business School Case study 9-799-125, June 16, 2000.

Brand development has been an important element of the company's strategy. Mondavi stimulated the development of brands by creating "brand teams", consisting of a brand sponsor (senior level executive) and members of each of the company's divisions and by integrating their decisions into the company's policy⁴². Also, in his brand-creation approaches, Mondavi adopted strategies that created scarcity at the low-end level, limited-releasing some blends and vineyard designation wines.

Mondavi also carried out various activities outside the wineries to create a market for wines. He was the first winemaker in Napa that utilized wine tours extensively, with a high degree of his marketing activities focused on education about wine and on wine experiencing⁴³. To stimulate these kind of activities, Mondavi engaged in aggressive advertising, promotions and actively participated in various organizations, such as the Wine Market Council. Moreover, he supported the creation of Copia, the American Center for Wine Food and Arts in Napa that teaches people about wine. Mondavi was also the first winemaker that became sponsor of the Golden Vine Winery, created for a "wine tasting experience" in Disney's California Adventure theme park. In all these attempts, Mondavi was looking to educate people by leveraging the visitors' experience and look-and-feel of the winery.

42 Mondavi successfully pioneered the concept of coastal grown wines. Identifying the potential of this approach, many imitators began selling wines with "coastal" name or designations, making Mondavi adopt a radical strategy: phasing away and cannibalizing it (Mondavi, R. Michael "Goldman Sachs Global Consumer Products Conference," Reynella, May, 2002).

43 Robert Mondavi Ltd. Annual report – 2001, September 2001.

2. BRL Hardy

In its attempts to become a truly global wine company, BRL Hardy was among the first Australian companies that considered branding as the key factor to successfully profit by the global wine market. Its efforts took advantage of the non existence of real global wine companies, many of the companies that had previously attempted to build mass-market global brands succeeding in capturing only temporary relative small volumes of market⁴⁴.

BRL Hardy's actions for universalizing the wine consumption were based on the opportunities provided by globalization⁴⁵. While focused on the development of new wines representative for various regions, Hardy's growth strategy was of global expansion through various acquisitions or partnerships⁴⁶. This helped the company to hedge the permanent risk of poor vintage, BRL Hardy succeeding to leverage the production facilities, distribution network and strong marketing capabilities into a whole range of recognized consumer brands (*See Appendix I: Wine Industry Innovators' Brand Portfolio*). In the BRL Hardy's strategy, the headquarter is in charge with the brand development, labeling and pricing, while sales, distribution and promotion strategies are decided locally, on each market, making empowerment to be an important success factor of the company.

44 Rachman, Gideon. "Christmas survey: The disappearing drinker," *The Economist*, Vol 353, Iss. 8150 (Dec.18, 1999).

45 Bartlett, Christopher A., "BRL Hardy: Globalizing an Australian Wine Company," Harvard Business School Case study no. 9-300-018, December 12, 2001.

46 BRL Hardy – Media releases revealed that the company realized joint-ventures with the Chilean company Jose Canopa y CIA Limitada, with Casa Vinicola Calatrasi (Italy); strategic agreements were signed with with Banfi Vintners (1999), Constellation Brands Inc - US (April 2001) and with Pipers Brook Vineyard - Tasmania (June 2001). BRL Hardy's global expansion has further continued in June 2002, when it signed a distribution alliance with Dragon Seal Wines Co. (Beijing – China) and a joint-venture with Stellenbosch Vineyards (South Africa).

i) BRL Hardy's Innovative Approaches for Grapes Supply

BRL Hardy use both owned vineyards and outsourcing partnerships to secure a steady supply of qualitative grapes. It emphasized the partnership between the winemaker and winegrower, organizing various lectures for grape growers where BRL Hardy's branding strategy were explained, and were emphasized its' benefits for the winegrowers' business: consistent demand of grapes and higher prices provided for qualitative crop.

BRL Hardy paid extensive attention to the technical innovations that can assure a tighter control of the quality of the grapes. The company developed in 2001 the Near InfraRed Spectroscopy technique (NIRS) that allows on-the-spot measurement of the chemical composition of grapes by analyzing also their color, instead of analyzing only the sugar level, as was previously done. Through this significant innovation, BRL Hardy eliminated the dilution of fruit features, resulted by mixing higher and lower grades of grapes that are obtained from various sources. It realized an overall improvement in the quality of wine and found another way to generate strong rewards for growers producing high quality grapes.

ii) BRL Hardy's Innovative Approaches for the Brand's development

BRL Hardy's strategy to become a global wine company was to give people an enjoyable wine, supported by strong brand awareness. First, the company's goal was to develop consistent brands that respond to the average wine consumer who was interested in wine but not necessary very knowledgeable about it. The mobility of enological knowledge and the availability of premium grapes supported Hardy in achieving this goal. Moreover, the company emphasized the

quality and consistency of its wines. As result of the shift from the artistry methods to the systematic production, in 2001 BRL Hardy's become the first wine company in Australia that ever achieved Hazard Analysis Critical Control Point (HAACP) certification⁴⁷. While this internationally recognized food safety certification is a proof of the company's ability to assure consistent processes for wine production, by adopting it, BRL Hardy raised a new barrier for those in search for the branded premium wines profits.

Secondly, being focused on building global products, BRL Hardy paid a special attention to the most sensitive processes such as choosing the brand name and developing labels or packaging. As result, while the wines have globally easily pronounceable brand names, their distinctive labels provide enough information about the brand and appellation by using uncomplicated graphics.

In addition, BRL Hardy paid special attention to protect its' brands, by developing new state-of-the-art security measures to prevent theft and counterfeit of its premium wines. BRL Hardy assured the authenticity of its most expensive wines by impregnating the 100 years old vine's DNA into a light-reflecting printing ink of a security label⁴⁸. In addition, BRL Hardy developed a new high-tech packaging and a tamper-proof self-adhesive neck label that prevents the easy replacement of capsule and cork⁴⁹.

Finally, BRL Hardy developed an aggressive technique to promote their wines to the food-lovers. By selling each bottle with a small booklet hung on its neck, it succeeded not only in describing the wine, but also in stimulating feedback. More than just an immediate promotion and to educate people about wine,

47 BRL Hardy Ltd. "Chairman's address," 2001- Annual General Meeting, April 3, 2001.

48 Eileen Hardy Shiraz was the first wine worldwide that took benefit of this DNA coding techniques security seal, in June 2001.

49 BRL Hardy – Media release; June 21, 2001.

this innovation assisted the creation of a database of wine-and-food-loving consumers, necessary for the development of new products and for future promotions of the BRL Hardy's brands.

3. Vina san Pedro

As the largest single-site vineyard in Chile, the VSP's development strategy was based on the advantages of the Chilean winemaking industry. While Chilean wine producers had both the cost and quality advantage over other international producers, VSP positioned itself as a world winery with cultural roots in South America, focused on the creation of consistent premium brands. Vina san Pedro developed an aggressive marketing strategy with messages promoting quality, while selling on international and domestic markets a full range of wines, highly differentiated according to the final destination. VSP's strategy was to export the young wines produced in the same year as the harvest, to drive cash flows. The obtained brand recognition and generated revenues were destined to the introduction of higher priced varietals and reserve wines in the already penetrated markets.

Various partnerships with international players supported VSP's successful product-portfolio development and market expansion⁵⁰. Moreover, VSP realised that the character of the individual market and good relationship with importers are crucial for a successful wine export. Therefore, its strategy was focused on building a strong relationship with distributors from the targeted countries. The

50 In 1999, VSP established Finca la Celia SA, a subsidiary to produce and commercialize Argentine wines. In 2000 VSP successfully launched the "Angaro" brand (by Finca la Celia) and San Pedro Champagne. In addition, another joint venture was created with French Chateau Dassault - Vina Totihue, to produce icon and premium wines (Vina San Pedro Official Website <www.vinosdechile.cl>).

responsibility for selling VSP's wines, especially those in the lower price range (Gato) were left to the importers and wholesalers. As result, VSP sold 4665 cases of wine in 2001 (from 1047 cases sold in 1995), exporting its products in more than 60 countries from 5 continents.

Vina San Pedro has paid attention to quality, as the highest competitive priority for wine producers, essential for delivering the proper value to customers and for penetrating the external markets. The whole process of producing and delivering wine was considered at VSP as very important. As a result, this was regarded with highest attention and supported various innovations.

i) Innovative strategies adopted in the vineyard

As the originator of VSP's wines' flavors, vineyards benefited from many innovative techniques designed to create more flavored fruits, with a high potential for winemaking. Firstly, the grape types and the growing techniques were decided according to the identified subtle difference in soil, geographical position of land in the valley and weather patterns⁵¹. Moreover, grapes were irrigated at different intervals, necessary to achieve the grapes' desired content of water, usually specified by the oenologist. Secondly, VSP had a special approach regarding the grapes designated for Reserve wines. Since the skin is essential to confer a richness of flavors to wine, these vineyards received special treatment to raise the proportion of grape skin to pulp. Moreover, grapes were stressed at certain intervals to slow their growth. Thirdly, extensive attention was also given to the harvest. The sugar content was carefully monitored and the decision for harvest was made considering the type of wine desired and the type of grapes. The

⁵¹ Wylie, David, Srinivasa Rangan and Steven Allen. "Vina San Pedro," Babson College Case Study BAB-017, March 13, 2000.

technique used for picking grapes was determined by the quality intended for wine⁵². Through all these particular approaches with view to the vineyard, VSP succeeded to secure high quality flavored crop, necessary for the development of its brands.

ii) Innovative approaches of packaging

To prepare its wines for distribution, VSP adopted a real innovative approach by using CombiBloc, a high efficiency and more flexible packaging technology that has various advantages. Firstly, the possibility of filling various shapes of boxes allows VSP to highly differentiate its' products on the market. Secondly, the size flexibility of boxes and the easiness to convert in 5 different carton shapes within a few minutes gave VSP a competitive tool that reduced the packaging costs and made it easier for them to organize sales promotion campaigns⁵³. Thirdly, from the operational point of view, VSP faced an increase in productivity by using CombiBloc, the fastest aseptic filler worldwide. The productivity was increased due to longer operating times and higher filling speed, while various technical solutions adopted, reduced the operating costs. The low-foam properties of this filling system eliminated the need for defoamer and also lowered the number of movable pieces. Also, by using exchangeable modules in the construction of this machine, a hygienic and easier access to the components was attained, reducing the maintenance and service costs. In addition, by simultaneously cleaning all components of the filling system, it reduced the time

52 Vina San Pedro Official Website <www.vinosdechile.cl>.

53 Wylie, David, Srinivasa Rangan and Steven Allen. "Vina San Pedro," Babson College Case Study BAB-017, March 13, 2000.

necessary for sterilisation and preparation, thereby optimizing the productivity and reducing operating costs.

The use of this filling system contributed to the VSP's success on the market. It allowed different packaging shapes for VSP wines and created the differentiation necessary to establish a new position on the market. It supported VSP to take full benefit of the growing demand for high quality products and to successfully face the strong competition in the global wine industry, boosting its sales.

3.2 Key Points Resulted from the Cases' Analysis

As apparent from our analysis, the non-traditional winemakers from New World benefited of the no-rules and the last-mover incentives and achieved significant competitive advantages in the production and distribution of their wines. They skillfully exploited globalization and changed the rules within the wine industry by adopting innovative strategies that enriched their competitive strengths, increased the value delivered through wine, and expanded the market for it.

Firstly, New World winemakers decreased their costs by strategically developing vineyards and wineries in low-cost territories, taking full benefit of the opportunities for leasing instead of owning the facilities. By innovating their business models, they developed consistent qualitative low cost premium wines and dramatically influenced the development of the wine industry.

Secondly, New World innovators focused on branding as the way to simplify the complex purchasing decision process. They analyzed the wine consumers segments and followed the trends of life-style homogenization among

nations and consolidation of retail channels, investing heavily in the development of their global branding capabilities. Moreover, to satisfy a bigger pool of customers, New World innovators strategically developed global brand portfolios with consistent qualitative wines, representative for each region.

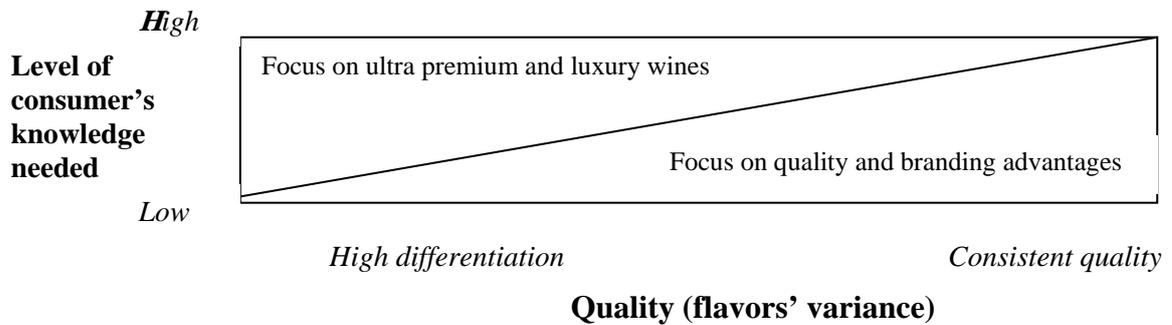


Fig. 13: Winemakers' strategies based on the consumers' knowledge

Finally, in order to maintain the richness and availability on the market of their portfolios, New World winemakers developed strategic vertical and horizontal partnerships, such as M&A's or simple alliances. They hedged the multiple risks specific to this business and stimulated the consolidation of the global wine industry. The success of the New World winemakers' innovative strategies is reflected in the overall positive operational and financial results of each analyzed company. (See *Appendix H: Wine Industry Innovators' Brand Portfolio* and *Appendix I: Wine Industry Innovators' Result*).

IV. CONCLUSIONS

In their continuous quest for markets and profits, winemakers strive to become truly global by seizing various opportunities. They develop adequate strategies to leverage their competencies in grapes sourcing, winemaking, distribution and marketing into profits. While quality and cost leadership help companies to become successful on the actual market, innovation is perceived by some winemakers as the only way to deliver more value to consumers and, furthermore, to increase their market share.

Based on the results of our analysis on the wine industry in the context of globalization, several conclusions are as follows:

1. Globalization has provided an excellent support for the development of the wine industry. It helped the winemakers benefit extensively from the cross-border expansion advantages, such as multi-country sourcing (to lower the risk of grapes' shortage), access to a bigger pool of winemaking knowledge and consumers, development of proper product-mix portfolios (that can better satisfy different segments of customers), economies of scale for marketing activities, and effective distribution through supermarkets. Accordingly, the New World winemakers have been conducting the global wine industry's development.

2. Globalization has stimulated the consolidation of the wine industry. Winemakers' permanent struggle for customers and the need to maintain their competitiveness stimulated the creation of various vertical or horizontal partnerships. These are beneficial for the newly created company's operational and

financial results and furthermore, contribute to the global wine industry's consolidation.

3. Innovation supported the New World winemakers to obtain the pole position and maintain the leadership in the global wine industry's development and consolidation.

Unconstrained by rigid regulations, the New World winemakers used the opportunities available through globalization to secure their competitive advantages. Various strategies allowed the companies not only to promote their wines, but also to differentiate among themselves. The New World winemakers innovated the value delivered, increasing the quality of wine and creating recognized global brands. Consequently, they expanded their customer base from the traditional wine lovers, “connoisseurs”, to the food lovers, health conscious and fashionable life style people, while struggling to transform the traditional confined industry into a global profitable one.

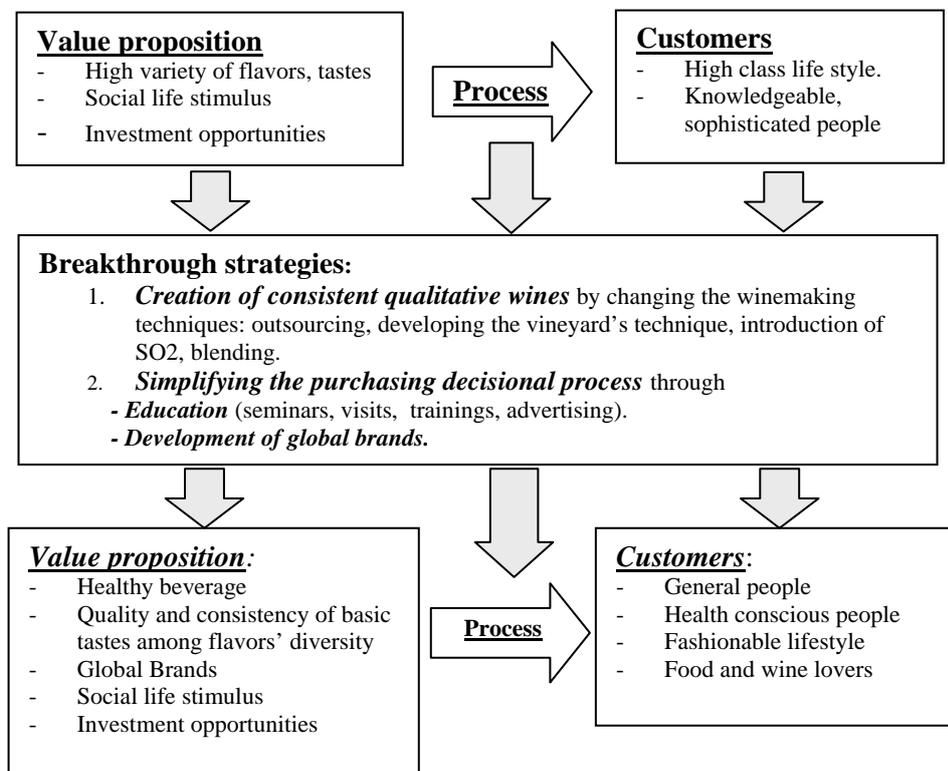


Fig.14: Innovation strategies' effect on Value proposition – Processes – Customer chain

3.1 Innovations expanded the market for wine.

The New World winemakers have developed strategies focused on product leadership, education and increase of wine's utility to expand their market. Various programs, such as advertising, promotional campaigns and wineries events were developed to support winemakers' efforts to reduce the "snobby" image and to increase the consumption of wine. The promotion of wine as a complement for food encouraged many people to start enjoying table and premium wines. The on-premises "wine-by-the-glass" has become an effective tool for promotion and selling, whilst the new packaging technologies delivered more value to customers through convenience or other increments. Furthermore, some of the packages stimulated feedback, contributing to the creation of customer databases. In addition, the Internet became popular especially for educating people and wine promotion, but also for selling, in those areas where laws allow it. As a result, the global consumption of wine has constantly increased since 1997, reducing the gap that exists between the global production and consumption capacity.

3.2 Innovation led to an increase in the quality of wines and the creation of consistent brands.

The New World winemakers benefited from qualitative crop supplies and increased the quality of their wines, setting up new standards within the industry. Continuous innovation and standardization of the winemaking processes endorsed consistent high quality wines, generating higher value for customers. Moreover, continuous innovation of the value adding processes supported winemakers in obtaining scale and scope economies. All these elements supported the creation of both high-end, ultra-premium wines and consistent mass-wines for early drinking.

Winemakers developed globally recognized brands (*See Attachment E: Top 10 global winemakers*) in their attempts to reduce the decisional process for purchasing wine, which is a both horizontally and vertically differentiated product⁵⁴. The consumption of branded wines has grown rapidly, in the detriment of the non-branded ones (*See Fig. 3: Growth of the branded wines*), and the development of strong wine brands has been beneficial for the growth of the wine industry⁵⁵. While educating people about wine, brand development also stimulates the consolidation of this industry and the maturing of an environment that attracts multinationals to invest in wine business.

3.3 Innovation has an overall positive effect on a company's operational and financial results.

By constantly innovating their business models, companies successfully achieved product or market leadership, based on their production and distribution competitive strength. By positioning themselves either at the upper-end or low-end, winemakers enjoyed branding advantages through cost reduction and consistent high quality, thus generating steady increases in their market share and profits.

Although winemakers worldwide have almost similar value delivery chains, innovators are those who take full advantage of the actual opportunities provided by globalization. They lead in the actual quest for consolidation and enjoy an increase in their market-share as well as in profits. Even though the existence of a well-developed brand-portfolio generates outstanding revenues, many winemakers

54 Scott, Fiona M. and Podolny, Joel. "Love or Money? The effect of the owner motivation in the Californian Wine Industry," NBER Working paper. No. 6743 (October 1998).

55 "Multinationals Look to Big Brand Wines." Euromonitor International: August 15, 2002.

consider innovation as one of their core competencies, as important as product quality, operational effectiveness or branding capabilities. Nowadays, winemakers are trying to leverage these core competencies in the globalization environment and to transform wine into the universal first choice lifestyle beverage.

The next challenge of the wine industry is that, while new developed “standardized” wines might stimulate the wine consumption, consumers will soon begin to differentiate between brands and labels within a brand and moreover, among grapes and specific regional flavors. Therefore, they will soon shift to superior and more varied wines, creating a heterogeneous demand. To better satisfy the whole range of tastes of the global consumer, the development of wines characteristic to a region is a must that contributes to the strong regionalization of the global wine industry. Moreover, universalization of wine consumption and further increase in the wine’s consumption can take advantage of a new packaging philosophy by delivering wine (especially table wine) into more convenient “one glass” packages. This new packaging might further satisfy the desire for drinking wine by considering the diversity among people, providing enough quantity for one person and fully enjoying the branding advantages.

APPENDICES

Appendix A

The Winemaking Value Delivery Chain

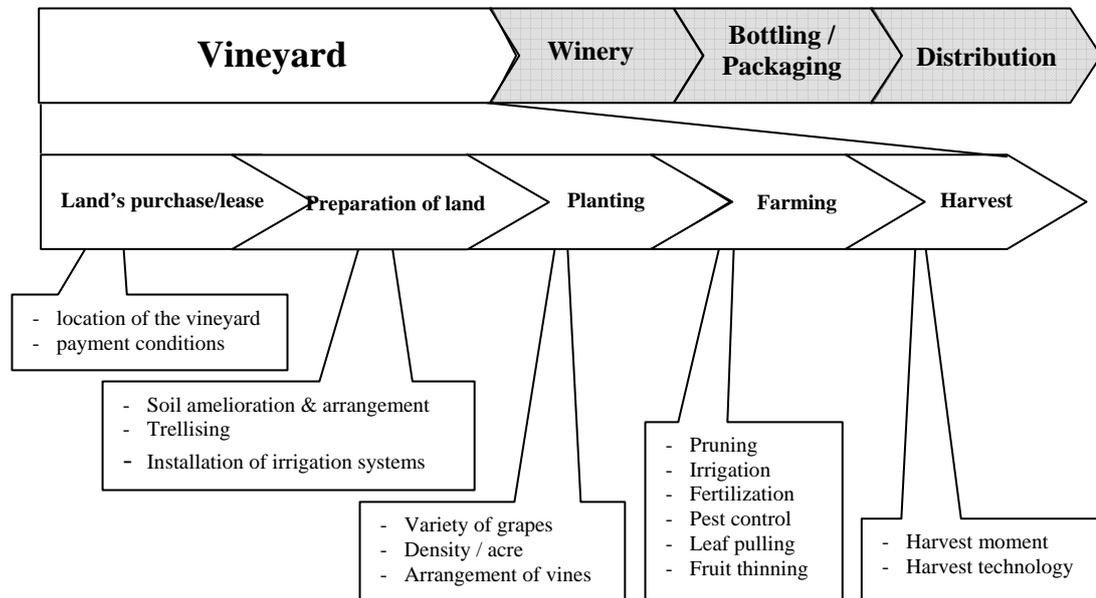


Fig. 15. Vineyard's value delivery chain

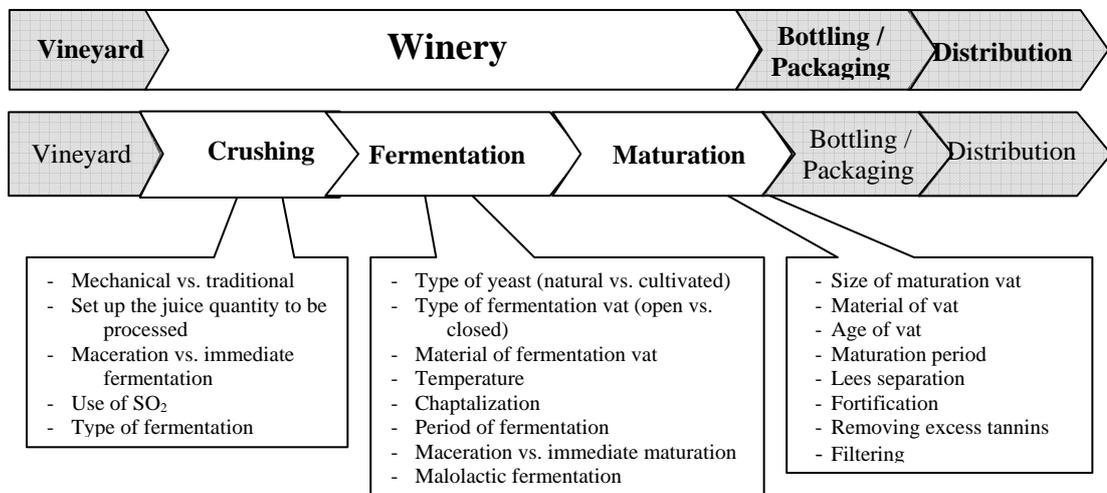


Fig. 16. Winery's value delivery chain

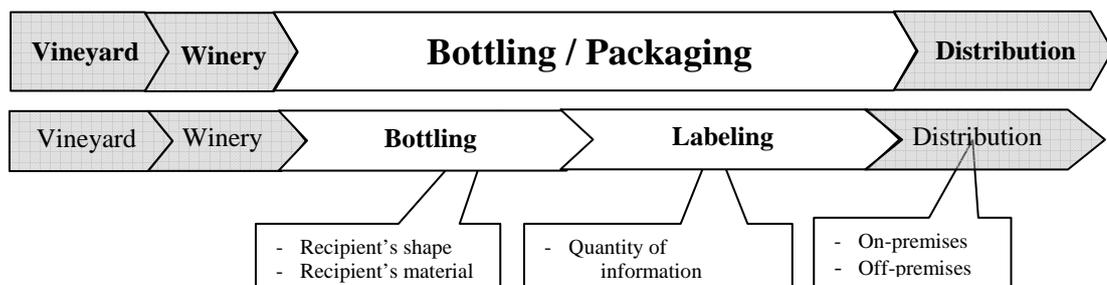
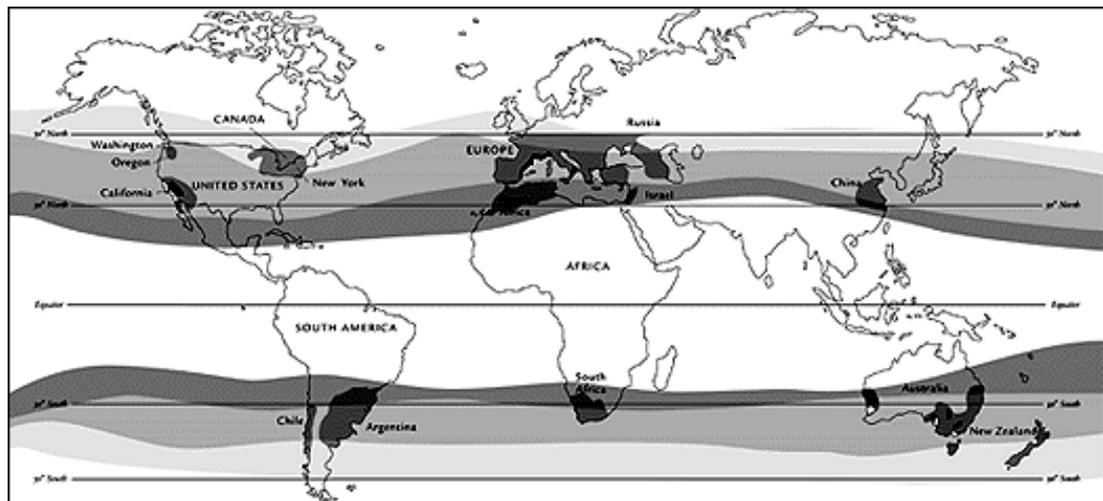


Fig. 17. Value delivery chain – bottling & packaging

Appendix B

The Availability of Vine Growing Territories



FLAVOR MAP OF THE WORLD		
	WHITE WINE FLAVORS	RED WINE FLAVORS
Cool Zone	apples, pears	cranberries, redcurrants, red cherries
Moderate Zone	citrus (oranges, limes, tangerines, grapefruits), peaches, apricots, nectarines, melons	black cherries, blackcurrants, blueberries, blackberries, plums
Warm Zone	mangos, pineapples, papayas, guavas, bananas	figs, raisins, prunes
Main Wine Regions	Warm Spots	Cool Spots

Source: <http://www.wine.com/>

Appendix C

Sensitivity Analysis of Investments in Vineyard

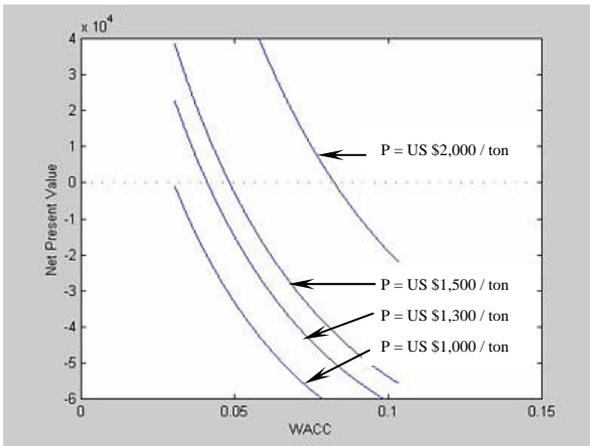


Fig. 18: Influence of grape's price

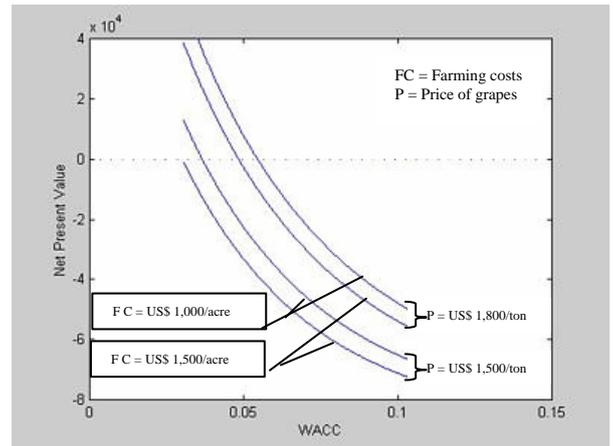


Fig. 19: Influence of farming costs

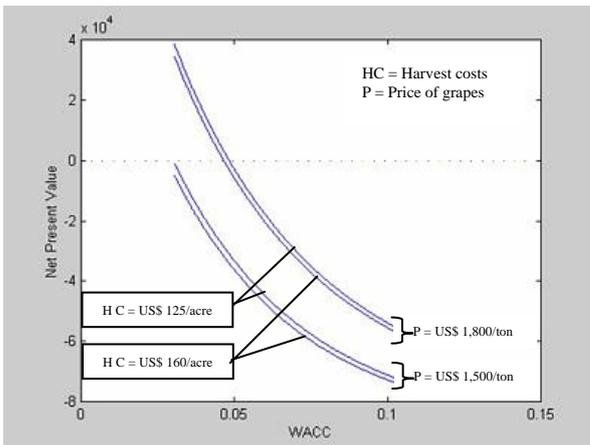


Fig. 20: Influence of harvest costs

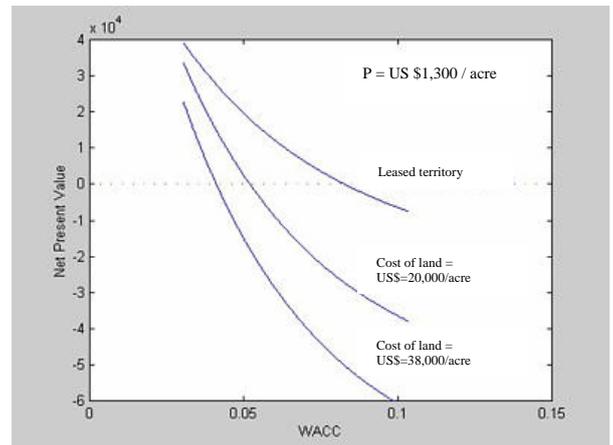


Fig. 21: Influence of cost of land

Appendix D

The Economics of the Wine's Value Delivery Chain

Retail price / bottle	\$8
Grapes price / tone (\$)	720
No of bottles / tone	720
Grapes price / bottle (\$)	1

Retail price / bottle	\$18
Grapes price / tone (\$)	1250
No of bottles / tone	720
Grapes price / bottle (\$)	1.74

Retail price / bottle	\$24
Grapes price / tone (\$)	1600
No of bottles / tone	720
Grapes price / bottle (\$)	2.22

	US\$ / process	Value added	% of total	% of retail price
Grapes	1	100.0%	48.1%	12.5%
Winemaking	0.33	33.0%	15.9%	4.1%
Aging	0.17	17.0%	8.2%	2.1%
Oak Aging	0.08	8.0%	3.8%	1.0%
Bottling	0.5	50.0%	24.0%	6.3%
Total	2.08	208.0%	100.0%	26.0%

	US\$ / process	Value added	% of total	% of retail price
Grapes	1.74	100.0%	40.2%	9.7%
Winemaking	0.75	43.1%	17.3%	4.2%
Aging	0.67	38.5%	15.5%	3.7%
Oak Aging	0.42	24.1%	9.7%	2.3%
Bottling	0.75	43.1%	17.3%	4.2%
Total	4.33	248.9%	100.0%	24.1%

	US\$ / process	Value added	% of total	% of retail price
Grapes	2.22	100.0%	38.4%	9.3%
Winemaking	1.11	50.0%	19.2%	4.6%
Aging	1	45.0%	17.3%	4.2%
Oak Aging	0.56	25.2%	9.7%	2.3%
Bottling	0.9	40.5%	15.5%	3.8%
Total	5.79	260.7%	100.0%	24.1%

Product (wine)	2.08	100.0%	51.0%	26.0%
Marketing / Sales	0.92	44.2%	22.5%	11.5%
Administration	0.25	12.0%	6.1%	3.1%
Interest expenses	0.25	12.0%	6.1%	3.1%
Income taxes	0.25	12.0%	6.1%	3.1%
Profit	0.33	15.9%	8.1%	4.1%
Winery's price	4.08	196.2%	100.0%	51.0%

Product (wine)	4.33	100.0%	45.7%	24.1%
Marketing / Sales	2.08	48.0%	21.9%	11.6%
Administration	0.83	19.2%	8.8%	4.6%
Interest expenses	0.83	19.2%	8.8%	4.6%
Income taxes	0.58	13.4%	6.1%	3.2%
Profit	0.83	19.2%	8.8%	4.6%
Winery's price	9.48	218.9%	100.0%	52.7%

Product (wine)	5.79	100.0%	45.5%	24.1%
Marketing / Sales	2.88	49.7%	22.6%	12.0%
Administration	1.16	20.0%	9.1%	4.8%
Interest expenses	0.87	15.0%	6.8%	3.6%
Income taxes	0.58	10.0%	4.6%	2.4%
Profit	1.45	25.0%	11.4%	6.0%
Winery's price	12.73	219.8%	100.0%	53.1%

Winery's price	4.08	100.0%	51.0%	51.0%
Wholesaler	1.33	32.6%	16.6%	16.6%
Retailer	2.59	63.5%	32.4%	32.4%

Winery's price	9.48	100.0%	52.7%	52.7%
Wholesaler	2.9	30.6%	16.1%	16.1%
Retailer	5.62	59.3%	31.2%	31.2%

Winery's price	12.73	100.0%	53.1%	53.1%
Wholesaler	3.82	30.0%	15.9%	15.9%
Retailer	7.45	58.5%	31.0%	31.0%

Retail price (US \$)	8
-----------------------------	----------

Retail price (US \$)	18
-----------------------------	-----------

Retail price (US \$)	24
-----------------------------	-----------

Appendix E

Top 10 Global Winemakers

Global Rank	Company	Country	Wine sales (000)	Brands
1	E&J Gallo	US	\$1,515	Carlo Rossi, Livingstone, Turning Leaf, Gossamer Bay
2	LVMH	France	1,386	Mostly champagnes: Moet Hennessy, Domaine Chandon
3	Constellation	US	1,080	Simi, Franciscan, Almaden, Inglenook, Masson, Taylor, Vendange, Ravenswood
4	Allied Domecq	UK	\$876	Clos du Bois, Buena Vista, Atlas Peak, Callaway, Montana
5	The Wine Group	US	\$694	Franzia, Corbett Canyon, Glen Ellen
6	Southcorp	Australia	\$601	Lindeman's, Penfold's, Rosemount, James Herrick
7	Beringer Blass	Australia	\$600	Beringer, Wolf Blass, Mildara, Meridian, Stag's Leap
8	Diageo	UK	\$547	Beaulieu, Blossom Hills, Sterling
9	Henkell & Sohleim	Germany	\$526	Henkell Trocken, Deinhard, Schloss Johannesberg
10	Brown-Forman	US	\$494	Fetzer Sonoma Cutrer, Bolla, Bicardi
Top 10			\$ 8319	5% global market share
Others				
13	Robert Mondavi	US	\$427.7	RM Winery, RM Private Selection, Woodbridge, Caliterra, Arrowood
17	Kendal-Jackson	US	\$366	Vintner's Reserve, Grand Reserve
18	BRL Hardy	Australia	\$345	
	Vina San Pedro	Chile	\$82.3*	Gato, Etiqueta Dorada, Castillo de Molina, Santa Helena , Cabo de Hornos

* 1999 Results

Source: Robert Mondavi, "Goldman Sachs Global Consumer Products Conference," Reynella, May, 2002

Appendix F

Global Wine Industry's Characteristics

Country	Per capita consumption (liters)	Production (hl '000)	Total consumption (hl 000)	Imports	Global consumption M/S	Export percent	Main importing countries
US	7.61	20,691	20,858	20%	9.4%	13%	France, Italy, Australia, Chile
UK	14.72	13	8,757	100%	4.0%	0%	France, South Africa, Italy, US, Australia
France	59.84	60,235	35,500	16%	16.0%	25%	Italy
Spain	37.51	32,679	15,000	10%	6.8%	29%	France
Italy	54.13	58,073	31,200	2%	14.1%	32%	France
Chile	18.81	4,807	2,853	8%	1.3%	53%	US
Argentina	34.52	15,888	12,759	1%	5.8%	6%	Chile, US
South Africa	9.01	7,968	3,914	4%	1.8%	22%	UK, Ireland
Asia	n.a	7,616	9,784	22%	4.4%	n.a	France, Chile, Italy, US
Australia	19.45	8,511	3,726	7%	1.7%	28%	New Zealand

Source: OIV, Vin Expo, Goldman Sachs

Appendix G

Major Premium Wine Acquisitions

Date	Acquiror		Target	
	Country	Name	Name	Country
Sep-01	UK	Allied Domecq	Bodegas y Bebidas	Spain
Aug-01	UK	Allied Domecq	Buena Vista	United States
Aug-01	UK	Allied Domecq	Montana	New Zealand
Apr-01	Australia	Fosters	Matua Valley Wines	Australia
Apr-01	US	Constellation	Ravenswood	North America
Mar-01	US	Constellation	Corus Brands	North America
Mar-01	US	Constellation	Turner Road	North America
Feb-01	Australia	Southcorp	Rosemount	Australia
Sep-00	New Zealand	Montana	Corbans Wines	New Zealand
Aug-00	Australia	Fosters	Beringer	North America
Aug-00	Canada	Vincor	RH Philips	North America
Jun-00	Australia	BRL Hardy	Nobilo Vintners	New Zealand
Jul-99	Australia	Southcorp	Cuppa Cup	Australia
Jun-99	US	Constellation	Simi Valley	North America
Apr-99	US	Canadaigua	Franciscan	North America
Apr-99	US	Brown Forman	Sonoma Cutrer	North America
Mar-99	Australia	Cranswick Estate Wines	Australian Premium Wines	Australia
Sep-98	New Zealand	Nobilo Wines	Selaks Wines	New Zealand
Jul-98	US	Fortune brands	Geysers Peaks	North America
Jul-97	Australia	Simeon Wines	Australian Vintage	North America
Jun-96	Australia	Fosters	Rothbuy	Australia
Jan-96	Australia	Fosters	Mildara Blass	Australia
Nov-95	Australia	TPG	Beringer	North America
Aug-94	US	Constellation	Heublein Wine	North America

Source: Goldman Sachs

Appendix H

Wine Industry Innovators' Brand Portfolio

Robert Mondavi

Brand	Brand Established	Premium Segments (retail price per 750 ml bottle)							
		Popular (\$3-\$7)		Super (\$7-\$14)		Ultra (\$14-\$25)		Luxury (> \$25)	
Robert Mondavi Napa Valley	1966				X	X	X	X	
RM Coastal Private Selection*	2001(1994)			X	X				
Woodbridge by Robert Mondavi	1978	X		X					
Vichon Mediterranean**	1997			X					
La Familia di Robert Mondavi	1993				X	X		X	
Byron Vineyard & Winery	1984					X	X	X	
IO	1999							X	
Arrowood ***	2001					X	X		
Joint Venture Brands									
Opus One	1979								X
Caliterra	1996	X	X	X					
Sena	1996								X
Arboleda	2001					X	X		
Luce	1996								X
Lucente	1998					X	X		
Danzante	1999					X	X		

* Robert Mondavi Coastal was repositioned as Private Selection in 2001.

** Vichon Mediterranean label was sold in 2001 to Sieur d'Arquis in France.

*** In 2000 Mondavi acquires Arrowood Vineyards and Winery; in 2001 launched Grand Archer

**** Robert Mondavi Winery has done a major renovation between 1999 ~ 2001 in order to create a new gravity-flow process and to enhance the facilities for visitors.

Vina San Pedro

Brand	Brand Establishment	Premium Segments (retail price per 750 ml bottle)							
		Popular (\$3-\$7)		Super (\$7-\$14)		Ultra (\$14-\$25)		Luxury (> \$25)	
Cabo de Hornos	1997								X
1865	2001					X	X		
Castillo de Molina	1980		X	X	X				
35 South	1998			X	X				
Gato Negro	1960		X	X	X				
Gato Blanco	1960		X	X					
Amigo	1997 (2002)					X	X		

Wine Industry Innovators' Brand Portfolio (cont'd)

BRL Hardy

Brand		Premium Segments (retail price per 750 ml bottle)				
		Popular (\$3-\$7)	Super (\$7-\$14)	Ultra (\$14-\$25)	Luxury (> \$25)	
Hardys	Eileen Hardy (1973)				X	
	Thomas Hardy				X	
	Tintara Cellars		X	X X		
	Crest	X X	X			
1969	Nottage Hill	X	X			
	Stamp of Australia		X X	X		
	VR	X	X X	X X		
	Insignia	X X				
Banrock Station Houghton	HWB		X X			
	Jack Mann			X	X	
Leasingham	Classic Clare				X	
	Bin		X X			
Stonehaven	LVR	X X				
	Limestone Coast		X X			
	Stepping Stone	X	X			
Yarra Burn Kamberra Reynell Moondah Brook			X X			
			X X			
			X	X X		
			X X			
Renmano	Chairman's Selection		X X	X		
	Reserve Breeze	X X	X			
	Premium varietal		X X	X		
Bay of Fire Berry Estates	Brentwood	X X			X	
	Swan	X	X X			
	Berry Estates casks		X X			
Crofters Hunter Ridge Omni La Baume			X	X X		
			X X			
		X	X X	X X	X	
		X	X			
Wicked Wines Chateau Reynella Stanley		X	X			
			X X	X		
			X X			

Appendix I

Wine Industry Innovators' Results

Mondavi	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Sales (\$ mil)	154.3	177.7	167.0	210.4	240.8	300.8	325.2	370.6	427.7	505.8
Net income (\$ mil)	7.1	8.7	9.5	17.8	24.4	28.2	29.0	30.8	41.6	43.3
Income as % of sales	4.60%	4.90%	5.69%	8.46%	10.13%	9.38%	8.92%	8.31%	9.73%	8.56%
Book value per share (\$)	0	7.61	8.35	9.75	12.59	14.58	16.54	19.69	22.35	25.1

BRL Hardy	1993	1994	1995	1996	1997	1998	1999	2000	2001
Revenues from sales (\$ mil)	222.2	238.3	276.7	287.7	350.3	430.9	515.4	627.4	757.6
EBIT/Sales	12.00%	12.70%	12.70%	13.70%	14.05%	14.30%	16.00%	16.30%	16.40%
Net income (\$ mil)	13.4	15.8	17.4	23.1	28.4	38.6	50.1	63.7	72.2
Income as % of revenues	5.95%	6.54%	6.19%	7.67%	8.03%	8.62%	9.56%	9.92%	9.35%

VSP vs. Chilean industry

VSP	1997	1998	1999
Revenues from sales (\$ mil)	56.0	75.8	82.3
Net income (\$ mil)	4.8	5.2	8.0
Income as % of total revenues	8.55%	6.92%	9.73%

	1997	1998	1999
ROE	20.3%	23.6%	68.4%
ROA	21.4%	-2.4%	75.0%
Leverage	-12.5%	-10.0%	0.0%

SOURCES AND REFERENCES

- Arnold, James. "New World wins the wine war," Business in *BBC News*, June 21, 2001.
- Anderson, Kym. "The Globalization (and Regionalization) of Wine." Centre for International Economic Studies, Adelaide University: 2001.
- Allied Domecq Official Website <www.alliedomecq.com>
- American Vineyard Foundation Official Website <www.avf.org>
- Buggie, Frederick D. "The four phases of innovation," *The Journal of Business Strategy*, Vol. 22, Issue 5 (Sept-Oct 2001): pp. 36-42.
- Balfour, Frederik and others. "Wine War – Savvy New World marketers are devastating the French wine industry," *Business Week* (September 3, 2001).
- Bartlett, Christopher A., "BRL Hardy: Globalizing an Australian Wine Company," Harvard Business School Case study no. 9-300-018, December 12, 2001.
- BRL Hardy Ltd. "Chairman's address," *2001- Annual General Meeting*, April 3, 2001.
- BRL Hardy Ltd. "BRL Hardy & Constellation Brands Joint Venture," *Press Release*, June 12, 2001.
- BRL Hardy Ltd. "BRL Hardy breaks into China Wine Market," *Press Release*, June 13, 2002.
- BRL Hardy Ltd. "Major USA Acquisition Accelerates BRL Hardy's Expansion Plans," *Press Release*, October 1, 2001.
- BRL Hardy Ltd. *Annual report – 2001*. September 2001.
- BRL Hardy Official Website <www.brlhardy.com.au>
- Choi, David and Valinkangas, Liisa "Patterns of Strategy Innovation," *European Management Journal*, Vol.19. No.4 (Aug 2001): pp. 424-429.
- Corporate Information Official Website <www.corporateinformation.com>
- Corder R. and others. "Endothelin-1 synthesis reduced by red wine," *Nature*, 414 (2001): pp. 853-854.
- Diageo Official Website <www.diageo.com>
- Echikson, William. "How Mondavi's French venture went sour," *Business Week* (September 3, 2001).
- Encyclopedia Britannica
- Euromonitor International Official Website <www.euromonitor.com>
- "French Wine Industry Losing Global Market Share to New World Producers," *Food and Drink Weekly*, August 20, 2001.

- “Foreign lagers the world over,” *Euromonitor International* (July 10, 2002).
- Foster’s Group Official Website <www.fosters.com.au>
- “Food and Wine” Magazine Official Website <www.foodandwine.com>
- Govindarajan, Vijay and Anil K Gupta. “Strategic Innovation: A Conceptual Road Map,” *Business Horizons*, Vol. 44, Issue 4 (July-August 2001).
- Hartke, Debby. “Growing winegrapes: West Coast producers focus on quality, not quantity,” *Agri Marketing*, Vol. 38 (Sept 2000).
- Hamel, Gary. “Strategy Innovation and The Quest for Value.” Chap. 8 in *Strategic Thinking for the Next Economy*.ed.Cusumano, Michael A. and Markides, Constantinos. MIT Sloan Management Review, 2001.
- Hoover’s Official Website <www.hoovers.com>
- International Federation of Wines and Spirits Official Website <www.fivs.org>
- Kim, W. Chan and Renee Mauborgne, “Creating new market space,” *Harvard Business Review* (Jan.-Feb.1999): pp.83-93.
- Kim, W. Chan and Renee Mauborgne, “Strategy, value Innovation and the Knowledge Economy,” Chap. 9 in *Strategic Thinking for the Next Economy*.ed.Cusumano, Michael A. and Markides, Constantinos. MIT Sloan Management Review, 2001.
- Markides, Constantinos. “Six principles of Breakthrough Strategy,” *Business Strategy Review*. Vol. 10. Issue 2 (1999): pp. 1-10.
- Mondavi, Robert, “Interview with a Winemaking Legend,” ed. Gordon, Jim <www.wine.com/aboutwine/basics/people>
- “Multinationals Look to Big Brand Wines.” *Euromonitor International*: August 15, 2002.
- Mondavi, R. Michael “Goldman Sachs Global Consumer Products Conference,” Reynella, May, 2002.
- Market Research Official Website <www.MarketResearch.com>
- National Alcohol Beverage Control Association Official Website <www.nabca.org>
- Orr, Stuart. “The role of quality management in manufacturing strategy: Experiences from the Australian wine industry,” *Total Quality Management* (March 1999).
- Office International de la Vigne et du Vin Official Website <www.oiv.int>
- Peay, Andy. “The brand consultancy: Branding and the wine industry,” *Wines & Vines*, June 2001, 146-149.
- Perdue, Lewis. *The Wrath of Grapes*. New York: Avon Books Inc, 1999.
- Porter, Michael E. and Gregory C. Bond. “Robert Mondavi: Competitive Strategy,” Harvard Business School Case study 9-799-125, June 16, 2000.

Pernod Ricard Official Website <www.pernodricard.com>

Rofé, Jennifer. "Many Tanks: Stainless Technology Means New Options," *Wines & Vines*, July 2002, 42-51.

Rachman, Gideon. "Christmas survey: Glug, glug, glut," *The Economist*, Vol 353, Iss. 8150 (Dec. 18, 1999).

Rachman, Gideon. "Christmas survey: The disappearing drinker," *The Economist*, Vol 353, Iss. 8150 (Dec.18, 1999).

Robert Mondavi Ltd. *Annual report – 2001*, September 2001.

Robert Mondavi Official Website <www.robertmondavi.com>

Scott, Fiona M. and Podolny, Joel. "Love or Money? The effect of the owner motivation in the Californian Wine Industry," *NBER Working paper*. No. 6743 (October 1998).

SBC Wartburg. "Wine Industry Outlook Conference," Adelaide, November 11, 1999.

Tucker, Robert B. "Innovation discipline," *Executive Excellence*, Vol. 18, Issue 9 (Sep 2001): pp.3-4.

"The Global Market for Wine 2002." Euromonitor International: April 2002.

TizWine Official Website <www.tizwine.com>

The Economist Official Website <www.economist.com>

The Wine and Spirit Association Official Website <www.wsa.org.uk>

The Wine Market Council Official Website <www.winemarketcouncil.com>

Vina San Pedro Official Website <www.vinosdechile.cl>

Walker, Larry. "Wine by the glass: A key marketing tool," *Wines & Vines* (March 2001): pp. 20-27.

Wine Institute. "Mutual Acceptance Agreement on Enological Practices," *News Release*, December 18, 2001.

Wylie, David, Srinivasa Rangan and Steven Allen. "Vina San Pedro," Babson College Case Study BAB-017, March 13, 2000.

"Wine Market Trends And Analysis," *Wines & Vines* (March 2001): pp. 80-85.

Wine Institute Official Website <www.wineinstitute.org>

"Wine Enthusiast" magazine Official Website <www.winemag.com>

"Wine Spectator" Magazine Official Website <www.winespectator.com>

"Wines and Vines" Magazine Official Website <www.winesandvines.com>